

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Marshall	County Calhoun
Fiscal Year End 6/30/06	Opinion Date 11/3/06	Date Audit Report Submitted to State 12-27-06	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

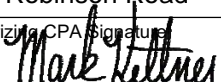
We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO **Check each applicable box below.** (See instructions for further detail.)

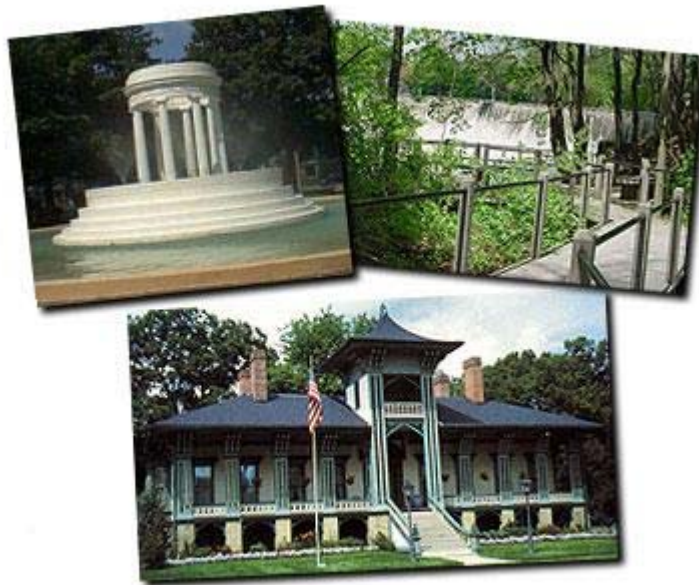
1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☐ ☒ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input checked="" type="checkbox"/>	Single Audit		
Certified Public Accountant (Firm Name) Rehmann Robson		Telephone Number (517)787-6503		
Street Address 675 Robinson Road		City Jackson	State MI	Zip 49203
Authorizing CPA Signature 		Printed Name Mark T. Kettner, CPA, CGFM		License Number 11673

CITY OF  
*Marshall*  
MICHIGAN



*Annual Financial Report*

**For the Fiscal Year Ended June 30, 2006**



**REHMANN ROBSON**

*Certified Public Accountants*

**CITY OF MARSHALL, MICHIGAN**  
**Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2006**  
**List of Principal City Officials**

**Elected Officials**

**City Council:**

Duane Cowgill, Mayor

Kelly Feneley, Ward 1

Mike Kinter, Ward 2

Brent Williams, Ward 3

Matt Glaser, Ward 4

Mark E. Webb, Ward 5

Ron Goodwin, At Large

**Administration**

City Manager ..... Chester Travis

Assessor ..... Nicole Wilson

Clerk-Treasurer / Finance Director ..... Gail Budrow-Bradstreet

Public Safety Director ..... Michael Olson

Utilities and Infrastructure Director ..... Tom Tarkiewicz

**CITY OF MARSHALL, MICHIGAN**  
**Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2006**

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**CITY OF MARSHALL, MICHIGAN**  
**Annual Financial Report**  
**For the Fiscal Year Ended June 30, 2006**

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## FINANCIAL SECTION



**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT**

November 3, 2006

Honorable Mayor and  
Members of the City Council  
City of Marshall, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the ***City of Marshall, Michigan***, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Marshall's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Marshall, Michigan, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the General and Special Projects Funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3-14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Marshall's basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements and schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style with a large initial 'L'.

## MANAGEMENT'S DISCUSSION and ANALYSIS

## Management's Discussion and Analysis

As management of the *City of Marshall, Michigan*, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2006. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

### Financial Highlights

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$35,212,980 (*net assets*). Of this amount, \$11,931,854 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$1,596,597.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,810,036, an increase of \$430,835 in comparison with the prior year. Approximately 95.8 percent of this total amount, or \$3,651,179, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$832,871 or 15.7% of total general fund revenues and other financing sources.
- The City's total bonded debt decreased by \$1,060,001 during the current fiscal year; no new bonds were issued during the year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, highways and streets, parks and recreation and community development. The business-type activities of the City include electric, wastewater, water, public transit, solid waste collection and other enterprise operations.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also legally separate entities for which the City is financially accountable. Financial information for these *component units* are reported separately from the financial information presented for the primary government itself. The Building Authority, although also legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

The government-wide financial statements can be found on pages 15-17 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 14 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the special projects special revenue fund, which are considered to be major funds. Data from the other 12 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements or schedules have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 18-24 of this report.

***Proprietary funds.*** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its electric, wastewater, water, public transportation and other operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its motor pool, data processing and safety services. Because these services predominantly benefit governmental rather than business-type functions, they have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, wastewater, water, Dial-A-Ride, and Marshall House funds, which are considered to be major funds of the City. Conversely, all of the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 25-30 of this report.

***Fiduciary funds.*** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 31 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34-56 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents the combining statements referred to earlier in connection with nonmajor funds. Combining and individual fund financial statements and schedules can be found on pages 57-85 of this report.

## Government-wide Financial Analysis

As noted earlier, net assets may serve, over time, as a useful indicator of a government's financial position. In the case of the City of Marshall, assets exceeded liabilities by \$35,212,980 at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (57.8 percent) reflects its investment in capital assets (e.g., land, buildings, vehicles, equipment, systems and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Marshall's Net Assets

	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 6,128,588	\$ 5,108,470	\$ 11,375,389	\$ 10,784,145	\$ 17,503,977	\$ 15,892,615
Capital assets	17,091,175	17,280,389	17,915,610	18,622,768	35,006,785	35,903,157
Total assets	23,219,763	22,388,859	29,290,999	29,406,913	52,510,762	51,795,772
Long-term liabilities outstanding	5,830,084	6,247,525	9,102,017	9,732,884	14,932,101	15,980,409
Other liabilities	1,087,747	448,257	1,277,934	1,750,723	2,365,681	2,198,980
Total liabilities	6,917,831	6,695,782	10,379,951	11,483,607	17,297,782	18,179,389
Net assets:						
Invested in capital assets, net						
of related debt	11,541,536	11,313,309	8,813,593	8,889,884	20,355,129	20,203,193
Restricted	783,884	751,070	2,142,113	1,477,075	2,925,997	2,228,145
Unrestricted	3,976,512	3,628,698	7,955,342	7,556,347	11,931,854	11,185,045
<b>Total net assets</b>	<b>\$ 16,301,932</b>	<b>\$ 15,693,077</b>	<b>\$ 18,911,048</b>	<b>\$ 17,923,306</b>	<b>\$ 35,212,980</b>	<b>\$ 33,616,383</b>

An additional portion of the City's net assets (8.3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (33.9 percent or \$11,931,854) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

The government's net assets increased by \$1,596,597 during the current fiscal year as compared to an increase of \$1,757,251 for the prior year. The current year increase in net assets reflects the extent by which revenues exceeded accrual basis expenses, including depreciation on governmental capital assets and infrastructure.

### City of Marshall's Changes in Net Assets

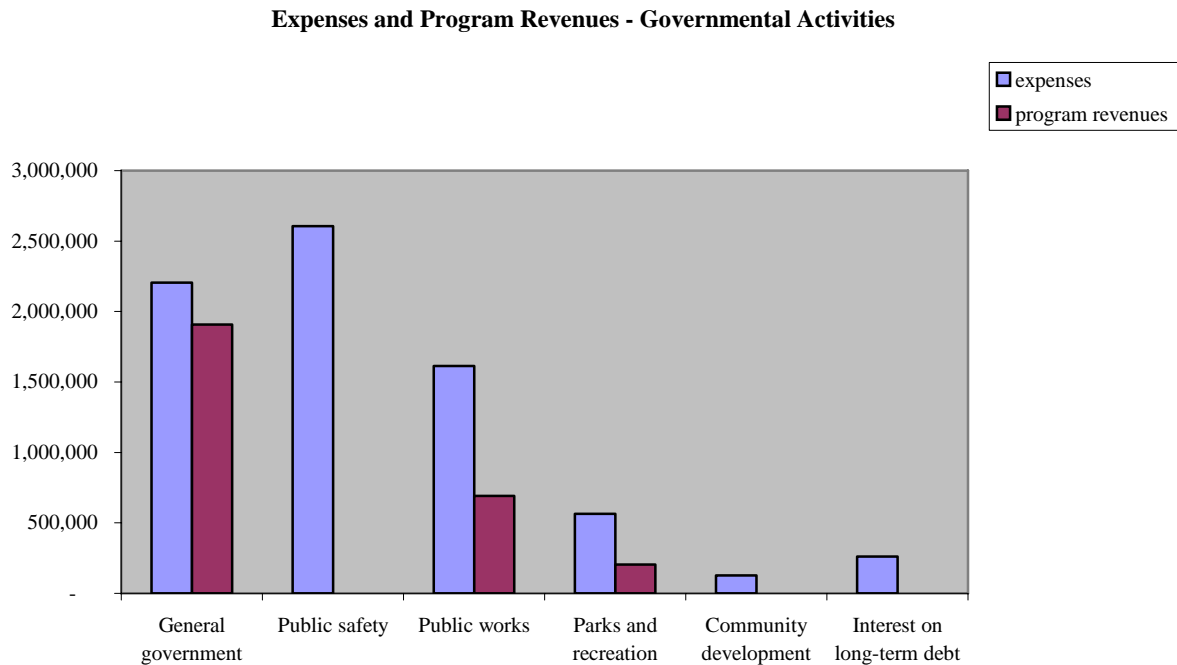
	Governmental activities		Business-type activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue:						
Program revenue:						
Charges for services	\$ 351,327	\$ 360,447	\$ 15,845,749	\$ 14,901,528	\$ 16,197,076	\$ 15,261,975
Operating grants and contributions	1,580,898	1,067,419	1,087,075	1,229,557	2,667,973	2,296,976
Capital grants and contributions	856,460	376,885	41,779	43,800	898,239	420,685
General revenue:						
Property taxes	3,521,909	3,439,111	104,800	102,569	3,626,709	3,541,680
Grants and contributions not restricted to specific programs	740,388	747,106	-	-	740,388	747,106
Other	219,181	120,735	141,671	62,951	360,852	183,686
Total revenue	<u>7,270,163</u>	<u>6,111,703</u>	<u>17,221,074</u>	<u>16,340,405</u>	<u>24,491,237</u>	<u>22,452,108</u>
Expenses:						
General government	2,205,257	1,827,576	-	-	2,205,257	1,827,576
Public safety	2,605,345	2,177,858	-	-	2,605,345	2,177,858
Public works	1,612,538	1,451,015	-	-	1,612,538	1,451,015
Parks and recreation	563,411	570,338	-	-	563,411	570,338
Community development	127,156	103,036	-	-	127,156	103,036
Interest on long-term debt	261,514	304,518	-	-	261,514	304,518
Electric	-	-	12,003,051	10,707,265	12,003,051	10,707,265
Wastewater	-	-	1,262,020	1,291,373	1,262,020	1,291,373
Water	-	-	1,302,087	1,333,940	1,302,087	1,333,940
Public transit	-	-	422,032	430,705	422,032	430,705
Marshall House	-	-	530,229	497,233	530,229	497,233
Total expenses	<u>7,375,221</u>	<u>6,434,341</u>	<u>15,519,419</u>	<u>14,260,516</u>	<u>22,894,640</u>	<u>20,694,857</u>
Change in net assets before transfers	(105,058)	(322,638)	1,701,655	2,079,889	1,596,597	1,757,251
Transfers	713,913	695,697	(713,913)	(695,697)	-	-
Change in net assets	608,855	373,059	987,742	1,384,192	1,596,597	1,757,251
Net assets - beginning of year	<u>15,693,077</u>	<u>15,320,018</u>	<u>17,923,306</u>	<u>16,539,114</u>	<u>33,616,383</u>	<u>31,859,132</u>
<b>Net assets - end of year</b>	<b><u>\$ 16,301,932</u></b>	<b><u>\$ 15,693,077</u></b>	<b><u>\$ 18,911,048</u></b>	<b><u>\$ 17,923,306</u></b>	<b><u>\$ 35,212,980</u></b>	<b><u>\$ 33,616,383</u></b>

**Governmental activities.** Governmental activities increased the City's net assets by \$608,858 (as compared to a prior year increase of \$373,059). Key elements of this increase and the change from the prior year are as follows:

- Program revenues and related expenses for general government and public safety increased roughly \$1 million in comparison to the prior year for grant funded projects related primarily to homeland security and communications.
- Other changes in expenses were generally limited to inflationary increases as spending was closely monitored through budgetary controls.

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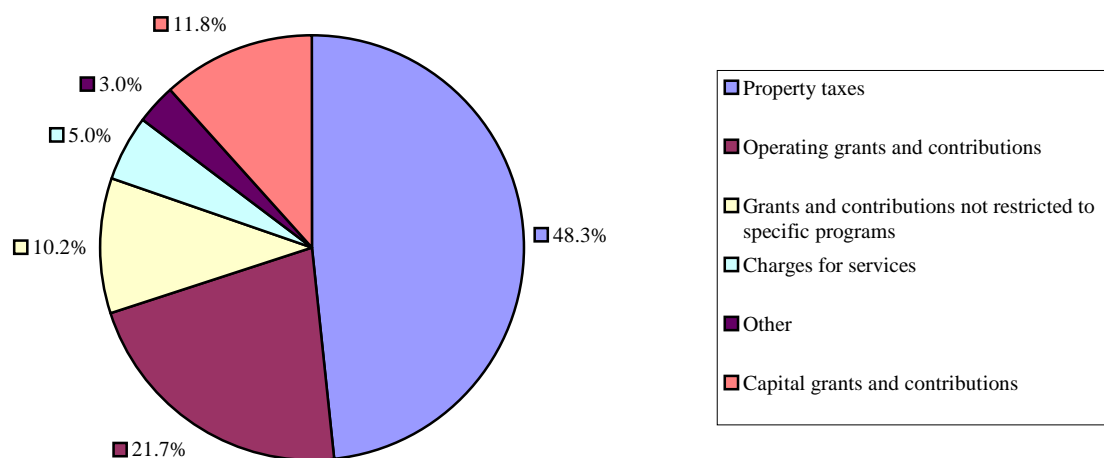
### Expenses and Program Revenues - Governmental Activities



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## Revenues by Source - Governmental Activities

Revenues by Source - Governmental Activities



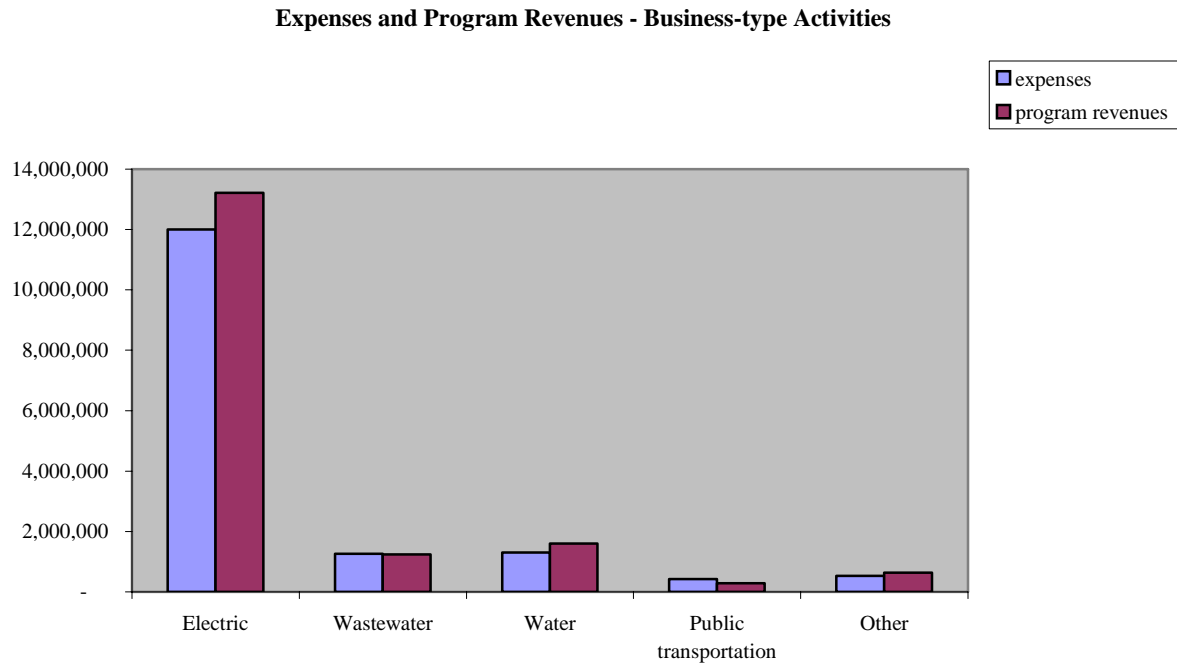
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**Business-type activities.** Business-type activities increased the City's net assets by \$987,742 as compared to an increase of \$1,384,192 the prior year. Key elements of this change include:

- Total revenue increased 5.4 percent while total expenses increased 8.8. These increases were substantially attributable to the electric activity where the cost of purchased power increased 10.8 percent due to inflationary issues this last year in the energy industry and usage. Changes in the revenues and expenses in the other business-type activities were marginal.
- Transfers, primarily for debt service obligations, increased by approximately 2.6 percent based on debt amortization schedules.

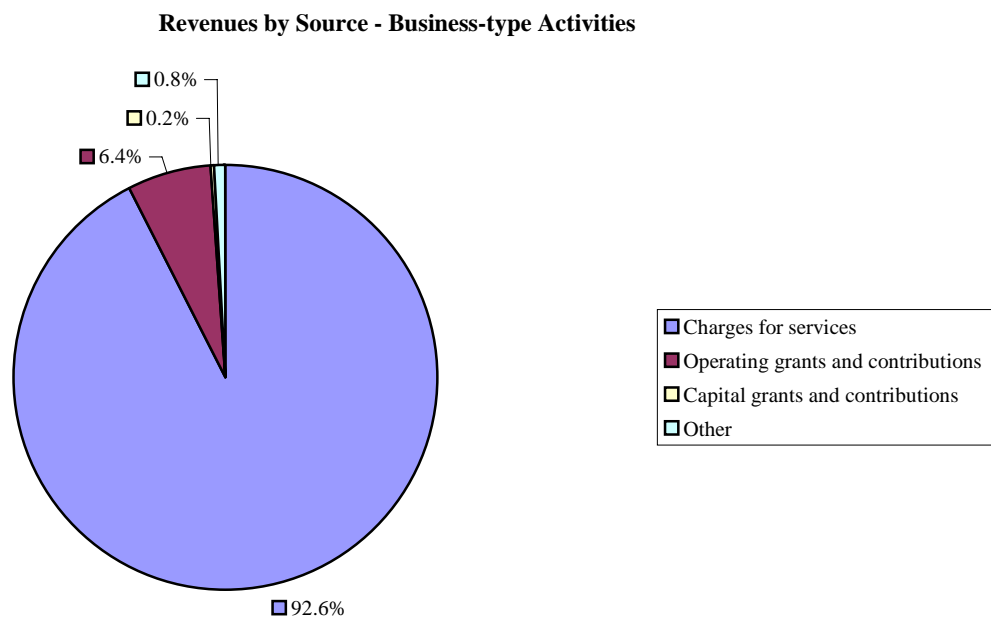
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## Expenses and Program Revenues - Business-type Activities



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## Revenues by Source - Business-type Activities



## Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

*Governmental funds.* The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$3,810,036, an increase of \$430,835 in comparison with the prior year. Approximately 96% of this total amount (\$3,651,179) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed for prepaid expenditures.

The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved undesignated fund balance of the general fund was \$832,871, while total fund balance was \$2,228,889. As a measure of the general fund's liquidity, it may be useful to compare unreserved, undesignated fund balance to total general fund revenues. Unreserved undesignated fund balance represents 15.7 percent of total general fund revenues and other financing sources.

The fund balance of the City's general fund increased by \$435,570 during the current fiscal year, which was \$71,095 greater than anticipated in the final budget.

The special projects fund reported a decrease in total fund balance of \$68,104 to an ending balance of \$338,504, which is \$68,104 less than anticipated.

*Proprietary funds.* The City's proprietary funds provide the same type of information found in the government wide financial statements, but in more detail.

Unrestricted net assets of the electric fund at the end of the year amounted to \$5,801,346. The fund had an increase in net assets for the year of \$896,495. Of the current year increase, \$547,485 was attributable to the increase in value of the City's investment in the MSCPA.

The wastewater fund reported unrestricted net assets at the end of the year of \$452,517. For the year, the fund had a decrease in net assets of \$43,387 as compared to a decrease of \$70,866 in the prior year.

The water fund reported unrestricted net assets at the end of the year of \$1,019,398. For the year, the fund had an increase in net assets of \$275,279 as compared to an increase of \$222,286 in the prior year.

The Dial-A-Ride fund reported unrestricted net assets at the end of the year of \$161,682. For the year, the fund had a decrease in net assets of \$29,715 as compared to a decrease of \$115,257 in the prior year.

The Marshall House fund reported unrestricted net assets at the end of the year of \$481,601. For the year, the fund had a decrease in net assets of \$119,363 as compared to a decrease of \$86,840 in the prior year.

### **General Fund Budgetary Highlights**

Differences between the original and final amended budgets for revenue were minor and can be briefly summarized as follows:

- \$71,000 increase in investment earnings;
- \$353,484 increase in other revenues for recapture of tax abatement and contribution from LDFA for debt service;

Differences between the original and final amended budgets for expenditures were also minor and can be briefly summarized as follows:

- \$64,836 increase in debt service principal and \$29,042 in debt service interest for payments relative to Quigley property (relates to LDFA contribution mentioned above).
- \$84,000 increase in capital outlay for police video cameras and Rice dam removal project.

For the year, general fund budgetary estimates for revenues, expenditures and other financing sources and uses differed from actual, resulting in a net increase in fund balance that was \$71,095 greater than anticipated in the final amended budget.

### **Capital Asset and Debt Administration**

**Capital assets.** The City's investment in capital assets for its governmental and business type activities as of June 30, 2006, amounted to \$35,006,785 (net of accumulated depreciation). This investment in capital assets includes land, improvements, buildings, system, vehicles, equipment, and streets. Net capital assets for governmental activities decreased 3.4%, and for business-type activities decreased by 3.8%. Overall, total net capital assets for the City decreased 3.6%.

Major capital asset events during the current fiscal year included various vehicle and equipment additions in the governmental activities totaling \$773,534 and various systems, building and vehicle improvements/acquisitions totaling \$709,087 in the enterprise funds.

**City of Marshall's Capital Assets**  
(net of depreciation)

	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
Land	\$ 2,232,662	\$ 2,232,662	\$ 164,618	\$ 164,618	\$ 2,397,280	\$ 2,397,280
Construction in process	300,619	-	110,764	403,938	411,383	403,938
Land improvements	3,239,150	3,908,926	-	-	3,239,150	3,908,926
Buildings	4,092,823	4,292,997	2,379,334	2,561,487	6,472,157	6,854,484
Vehicles	1,168,279	1,014,833	449,490	508,763	1,617,769	1,523,596
Equipment	146,678	173,562	508,032	574,858	654,710	748,420
Systems	-	-	14,303,372	14,409,103	14,303,372	14,409,103
Infrastructure	5,910,964	6,065,451	-	-	5,910,964	6,065,451
<b>Total</b>	<b>\$ 17,091,175</b>	<b>\$ 17,688,431</b>	<b>\$ 17,915,610</b>	<b>\$ 18,622,767</b>	<b>\$ 35,006,785</b>	<b>\$ 36,311,198</b>

Additional information on the City's capital assets can be found in Note 3-D. on pages 47-48 of this report.

**Long-term debt.** At the end of the current fiscal year, the City had total bonded debt outstanding of \$12,840,000. Of this amount, \$9,120,000 is comprised of debt backed by the full faith and credit of the government. The remainder of the City's bonded debt represents bonds secured solely by specified revenue sources.

**City of Marshall's Outstanding Debt**  
General Obligation and Revenue Bonds

	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>	<b>2006</b>	<b>2005</b>
General obligation bonds	\$ 4,865,000	\$ 5,345,000	\$ 4,255,000	\$ 4,550,000	\$ 9,120,000	\$ 9,895,000
Revenue bonds	-	-	3,720,000	4,005,001	3,720,000	4,005,001
<b>Total</b>	<b>\$ 4,865,000</b>	<b>\$ 5,345,000</b>	<b>\$ 7,975,000</b>	<b>\$ 8,555,001</b>	<b>\$ 12,840,000</b>	<b>\$ 13,900,001</b>

The City's total bonded debt decreased by \$1,060,001 (7.6 percent) during the current fiscal year; no new bonds were issued during the year.

The following chart depicts the City's credit rating for the various outstanding debt and the different rating agencies:

	<u>S&amp;P</u>
Electric revenue bonds	BBB+
General obligation limited tax bonds	A
General obligation unlimited tax bonds	A

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total state equalized valuation. The current debt limitation for the City is \$29,175,991 which is significantly in excess of the City's outstanding general obligation debt.

Additional information on the City's long-term debt can be found in Note 3-G. on pages 49-53 of this report.

### **Economic Factors and Next Year's Budgets and Rates**

The following factors were considered in preparing the City's budget for the 2006-07 fiscal year:

- Developed budgets within the context of the forecasted revenues and expenditures;
- No growth in state shared revenue;
- Modest increase of one percent in property tax revenues;
- Expenditure increases generally limited to inflation with capital projects to be funded from additional revenues received the prior year;
- Inflationary trends in the region are comparable to or above national indices.

During the current fiscal year, the unreserved undesignated fund balance in the general fund decreased by \$226,921 to \$832,871. The City has appropriated \$493,155 for fiscal 2006-07 planned expenditures.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, 323 West Michigan Avenue, Marshall, Michigan 49068-1578.

## BASIC FINANCIAL STATEMENTS

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Net Assets**  
**June 30, 2006**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 1,209,237	\$ 1,246,024	\$ 2,455,261	\$ 138,265
Investments	4,319,888	1,552,282	5,872,170	1,352,447
Receivables	348,961	980,879	1,329,840	-
Internal balances	(38,798)	38,798	-	-
Inventories, prepaid items and other assets	289,300	1,214,149	1,503,449	61,935
Investment in MSCPA	-	4,201,144	4,201,144	-
Restricted cash and cash equivalents	-	2,142,113	2,142,113	104,964
Capital assets not being depreciated	2,533,281	275,382	2,808,663	-
Capital assets being depreciated, net	14,557,894	17,640,228	32,198,122	-
<b>Total assets</b>	<b>23,219,763</b>	<b>29,290,999</b>	<b>52,510,762</b>	<b>1,657,611</b>
<b>Liabilities</b>				
Accounts payable and accrued expenses	963,004	1,189,393	2,152,397	78,914
Accrued interest payable	105,364	88,541	193,905	19,718
Unearned revenue	19,379	-	19,379	-
Long-term liabilities:				
Due within one year	672,554	627,001	1,299,555	135,000
Due in more than one year	5,157,530	8,475,016	13,632,546	1,960,000
<b>Total liabilities</b>	<b>6,917,831</b>	<b>10,379,951</b>	<b>17,297,782</b>	<b>2,193,632</b>
<b>Net assets</b>				
Invested in capital assets, net of related debt	11,541,536	8,813,593	20,355,129	-
Restricted for:				
Debt service	15,376	2,142,113	2,157,489	104,964
Capital projects	206,574	-	206,574	-
Endowment - expendable	561,934	-	561,934	-
Unrestricted	3,976,512	7,955,342	11,931,854	(640,985)
<b>Total net assets (deficit)</b>	<b>\$ 16,301,932</b>	<b>\$ 18,911,048</b>	<b>\$ 35,212,980</b>	<b>\$ (536,021)</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Activities**  
**For the Year Ended June 30, 2006**

<b><u>Functions / Programs</u></b>	<b><u>Expenses</u></b>	<b><u>Program Revenues</u></b>			<b><u>Net (Expense) Revenue</u></b>
		<b><u>Charges for Services</u></b>	<b><u>Operating Grants and Contributions</u></b>	<b><u>Capital Grants and Contributions</u></b>	
<b>Primary government</b>					
Governmental activities:					
General government	\$ 2,205,257	\$ 177,896	\$ 979,974	\$ 750,000	\$ (297,387)
Public safety	2,605,345	(15,143)	624	-	(2,619,864)
Public works	1,612,538	-	584,844	106,460	(921,234)
Parks and recreation	563,411	188,574	15,456	-	(359,381)
Community development	127,156	-	-	-	(127,156)
Interest on long-term debt	261,514	-	-	-	(261,514)
Total governmental activities	<u>7,375,221</u>	<u>351,327</u>	<u>1,580,898</u>	<u>856,460</u>	<u>(4,586,536)</u>
Business-type activities:					
Electric	12,003,051	12,673,141	547,485	-	1,217,575
Wastewater	1,262,020	1,211,741	-	28,595	(21,684)
Water	1,302,087	1,585,691	3,072	13,184	299,860
Public transit	422,032	57,024	224,574	-	(140,434)
Marshall House	530,229	318,152	311,944	-	99,867
Total business-type activities	<u>15,519,419</u>	<u>15,845,749</u>	<u>1,087,075</u>	<u>41,779</u>	<u>1,455,184</u>
Total primary government	<u>\$ 22,894,640</u>	<u>\$ 16,197,076</u>	<u>\$ 2,667,973</u>	<u>\$ 898,239</u>	<u>\$ (3,131,352)</u>
<b>Component units</b>					
Community development	<u>\$ 1,862,690</u>	<u>\$ 103,516</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,759,174)</u>

Continued...

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Activities (Concluded)**  
**For the Year Ended June 30, 2006**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Changes in net assets</b>				
Net (expense) revenue	\$ (4,586,536)	\$ 1,455,184	\$ (3,131,352)	\$ (1,759,174)
General revenues:				
Property taxes	3,521,909	104,800	3,626,709	730,878
Grants and contributions not restricted to specific programs	740,388	-	740,388	-
Unrestricted investment earnings	219,181	141,671	360,852	77,052
Transfers - internal activities	713,913	(713,913)	-	-
Total general revenues and transfers	5,195,391	(467,442)	4,727,949	807,930
Change in net assets	608,855	987,742	1,596,597	(951,244)
Net assets, beginning of year, as restated	15,693,077	17,923,306	33,616,383	415,223
<b>Net assets (deficit), end of year</b>	<u>\$ 16,301,932</u>	<u>\$ 18,911,048</u>	<u>\$ 35,212,980</u>	<u>\$ (536,021)</u>

The accompanying notes are an integral part of these financial statements.

## FUND FINANCIAL STATEMENTS

# CITY OF MARSHALL, MICHIGAN

## Balance Sheet Governmental Funds June 30, 2006

	<u>General</u>	<u>Special Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 183,166	\$ 510,582	\$ 241,991	\$ 935,739
Investments	1,950,953	431,897	980,182	3,363,032
Accounts receivable	11,079	6,888	854	18,821
Taxes receivable	129	-	-	129
Due from other governments	34,542	169,403	86,209	290,154
Prepaid items	137,110	68	21,679	158,857
<b><u>TOTAL ASSETS</u></b>	<b><u>\$ 2,316,979</u></b>	<b><u>\$ 1,118,838</u></b>	<b><u>\$ 1,330,915</u></b>	<b><u>\$ 4,766,732</u></b>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Liabilities</b>				
Accounts payable	\$ 44,194	\$ 780,334	\$ 62,762	\$ 887,290
Accrued liabilities	43,419	-	6,531	49,950
Due to other governments	17	-	60	77
Deferred revenue	460	-	18,919	19,379
Total liabilities	88,090	780,334	88,272	956,696
<b>Fund balances</b>				
Reserved for prepaid items	137,110	68	21,679	158,857
Unreserved:				
Designated for working capital	500,000	-	-	500,000
Designated for other purposes	265,753	338,436	3,550	607,739
Designated for subsequent year expenditures	493,155	-	94,488	587,643
Undesignated	832,871	-	-	832,871
Undesignated, reported in nonmajor:				
Special revenue funds	-	-	339,042	339,042
Debt service funds	-	-	15,376	15,376
Capital projects funds	-	-	206,574	206,574
Permanent fund	-	-	561,934	561,934
Total fund balances	2,228,889	338,504	1,242,643	3,810,036
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<b><u>\$ 2,316,979</u></b>	<b><u>\$ 1,118,838</u></b>	<b><u>\$ 1,330,915</u></b>	<b><u>\$ 4,766,732</u></b>

The accompanying notes are an integral part of these financial statements.

**CITY OF MARSHALL, MICHIGAN**  
**Reconciliation of Fund Balances on the Balance Sheet**  
**for Governmental Funds to Net Assets of**  
**Governmental Activities on the Statement of Net Assets**  
**June 30, 2006**

<b>Fund balances - total governmental funds</b>	<b>\$ 3,810,036</b>
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Add - capital assets	24,723,615
Deduct - accumulated depreciation	(8,974,735)

Internal service funds are used by management to charge the costs of certain equipment usage to individual governmental funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

Add - net assets of governmental internal service funds	2,487,925
Deduct - portion of internal service funds net operating income attributed to business-type funds	(38,798)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current expenditures.

Add - long-term contracts receivable	39,857
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Certain liabilities, such as bonds payable, are not due and payable in the current period and therefore are not reported in the funds.

Deduct - bonds and installment contracts payable	(5,485,996)
Add - unamortized bond issuance costs	98,727
Deduct - premium on bonds	(7,247)
Deduct - accrued interest on bonds and installment contracts payable	(104,611)
Deduct - compensated absences	(246,841)

<b>Net assets of governmental activities</b>	<b>\$ 16,301,932</b>
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The accompanying notes are an integral part of these financial statements.

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2006**

	<b>General</b>	<b>Special Projects</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenue</b>				
Property taxes	\$ 3,345,098	\$ -	\$ 176,811	\$ 3,521,909
Licenses and permits	70,485	-	-	70,485
Intergovernmental	969,285	856,460	605,419	2,431,164
Charges for services	46,545	-	200,548	247,093
Fines and forfeitures	24,389	-	24,503	48,892
Investment earnings	148,691	9,868	24,232	182,791
Other	469,132	261,370	35,432	765,934
Total revenue	<u>5,073,625</u>	<u>1,127,698</u>	<u>1,066,945</u>	<u>7,268,268</u>
<b>Expenditures</b>				
Current expenditures:				
General government	1,365,457	634,170	66,490	2,066,117
Public safety	2,157,945	743,054	-	2,900,999
Public works	848,198	-	-	848,198
Highways and streets	-	-	250,564	250,564
Community development	85,585	-	-	85,585
Culture and recreation	80,829	-	374,984	455,813
Debt service:				
Principal	87,838	-	470,000	557,838
Interest and fiscal charges	47,832	-	191,264	239,096
Capital outlay	100,587	-	179,221	279,808
Total expenditures	<u>4,774,271</u>	<u>1,377,224</u>	<u>1,532,523</u>	<u>7,684,018</u>
Revenue over (under) expenditures	<u>299,354</u>	<u>(249,526)</u>	<u>(465,578)</u>	<u>(415,750)</u>
<b>Other financing sources (uses)</b>				
Transfers in	193,220	-	785,062	978,282
Transfers out	(79,004)	-	(256,115)	(335,119)
Long-term debt issued	-	181,422	-	181,422
Proceeds from sales of capital assets	22,000	-	-	22,000
Total other financing sources (uses)	<u>136,216</u>	<u>181,422</u>	<u>528,947</u>	<u>846,585</u>
Net change in fund balances	435,570	(68,104)	63,369	430,835
Fund balances, beginning of year, as restated	<u>1,793,319</u>	<u>406,608</u>	<u>1,179,274</u>	<u>3,379,201</u>
<b>Fund balances, end of year</b>	<u><u>\$ 2,228,889</u></u>	<u><u>\$ 338,504</u></u>	<u><u>\$ 1,242,643</u></u>	<u><u>\$ 3,810,036</u></u>

The accompanying notes are an integral part of these financial statements.

**CITY OF MARSHALL, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenditures**  
**and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2006**

<b>Net change in fund balances - total governmental funds</b>	<b>\$ 430,835</b>
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Add - capital outlay	308,134
Deduct - depreciation expense	(649,275)

Revenues in the statement of activities that do not provide current financial resource are not reported as revenues in the funds, but rather are deferred to subsequent fiscal year:

Deduct - collections on long-term contracts receivabl	(15,143)
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Bond proceeds provide current financial resources to governmental funds in the period issued, but issuing bonds increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

Deduct - proceeds from issuance of long-term debt	(181,422)
Add - principal payments on long-term liabilities	557,838
Deduct - net amortization of premiums and issuance costs on bonds	(19,255)

Internal service funds are used by management to charge the costs of certain equipment usage to individual governmental funds. The net revenue (expense) attributable to those funds is reported with governmental activities.

Add - net operating income from governmental activities in internal service funds	58,913
Add - interest revenue from governmental internal service funds	36,293
Deduct - interest expense from governmental internal service funds	(5,468)
Add - transfers received in governmental internal service funds	70,750

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.

Deduct - increase in accrued interest payable on bonds	(16,950)
Add - decrease in the accrual for compensated absences	33,605

<b>Change in net assets of governmental activities</b>	<b>\$ 608,855</b>
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The accompanying notes are an integral part of these financial statements.

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2006**

	<b>Budget</b>		<b>Actual</b>	<b>Actual</b>
	<b>Original</b>	<b>Final</b>		<b>Over (Under) Final Budget</b>
<b>Revenues</b>				
Property taxes	\$ 3,350,000	\$ 3,346,000	\$ 3,345,098	\$ (902)
Licenses and permits	67,500	67,500	70,485	2,985
Intergovernmental	954,017	947,088	969,285	22,197
Charges for services	53,500	44,000	46,545	2,545
Fines and forfeitures	26,500	27,000	24,389	(2,611)
Investment earnings	67,000	138,000	148,691	10,691
Other	187,356	540,840	469,132	(71,708)
Total revenues	4,705,873	5,110,428	5,073,625	(36,803)
<b>Expenditures</b>				
<b>General government</b>				
Council	2,886	3,086	2,911	(175)
Manager	112,625	130,000	128,519	(1,481)
Assessor	117,368	117,368	115,567	(1,801)
Attorney	97,000	59,000	54,823	(4,177)
Human resources	60,682	61,682	60,898	(784)
Clerk-Treasurer	321,396	312,000	299,133	(12,867)
City hall	77,863	77,863	69,071	(8,792)
Chapel	2,286	2,286	1,945	(341)
Other city property	1,431	1,460	1,460	-
Cemetery	166,257	166,257	141,512	(24,745)
Airport	88,357	88,357	93,612	5,255
Non-departmental	388,659	388,659	396,006	7,347
Total general government	1,436,810	1,408,018	1,365,457	(42,561)
<b>Public safety</b>				
Police	1,286,617	1,286,617	1,280,400	(6,217)
Fire	749,632	741,532	746,578	5,046
Inspection / code enforcement	110,381	110,381	102,072	(8,309)
Crossing guards	40,106	32,106	28,895	(3,211)
Total public safety	2,186,736	2,170,636	2,157,945	(12,691)
<b>Public works</b>				
Streets	638,180	687,180	701,226	14,046
Public services building	99,526	84,526	75,492	(9,034)
Engineering	75,794	75,794	71,480	(4,314)
Total public works	813,500	847,500	848,198	698

Continued...

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual (Concluded)**  
**General Fund**  
**For the Year Ended June 30, 2006**

	<b>Budget</b>			<b>Actual Over (Under) Final Budget</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	
<b>Expenditures (concluded)</b>				
<b>Community development</b>				
Community development	\$ 32,559	\$ 32,559	\$ 29,704	\$ (2,855)
Planning	61,723	58,723	55,881	(2,842)
Total community development	94,282	91,282	85,585	(5,697)
<b>Culture and recreation - Parks</b>	99,945	99,945	80,829	(19,116)
<b>Debt service</b>				
Principal	11,888	76,724	87,838	11,114
Interest and fiscal charges	17,218	46,260	47,832	1,572
Total debt service	29,106	122,984	135,670	12,686
<b>Capital outlay</b>	31,000	115,000	100,587	(14,413)
Total expenditures	4,691,379	4,855,365	4,774,271	(81,094)
Revenue over (under) expenditures	14,494	255,063	299,354	44,291
<b>Other financing sources (uses)</b>				
Transfers in	201,008	201,008	193,220	(7,788)
Transfers out	(91,496)	(91,596)	(79,004)	12,592
Proceeds from sales of capital assets	-	-	22,000	22,000
Total other financing (uses)	109,512	109,412	136,216	26,804
Net change in fund balances	124,006	364,475	435,570	71,095
Fund balance, beginning of year	1,421,245	1,793,319	1,793,319	-
<b>Fund balance, end of year</b>	<b>\$ 1,545,251</b>	<b>\$ 2,157,794</b>	<b>\$ 2,228,889</b>	<b>\$ 71,095</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Budget and Actual**  
**Special Projects Special Revenue Fund**  
**For the Year Ended June 30, 2006**

	<b>Budget</b>			<b>Actual</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Over (Under) Final Budget</b>
<b>Revenues</b>				
Intergovernmental revenue	\$ -	\$ -	\$ 856,460	\$ 856,460
Investment earnings	-	-	9,868	9,868
Other	-	-	261,370	261,370
Total revenues	-	-	1,127,698	1,127,698
<b>Expenditures</b>				
General government	-	-	634,170	634,170
Public safety	-	-	743,054	743,054
Total expenditures	-	-	1,377,224	1,377,224
Revenues over (under) expenditures	-	-	(249,526)	(249,526)
<b>Other financing sources (uses)</b>				
Long-term debt issued	-	-	181,422	181,422
Net change in fund balances	-	-	(68,104)	(68,104)
Fund balances, beginning of year	406,608	406,608	406,608	-
<b>Fund balances, end of year</b>	<b>\$ 406,608</b>	<b>\$ 406,608</b>	<b>\$ 338,504</b>	<b>\$ (68,104)</b>

The accompanying notes are an integral part of these financial statements.

# CITY OF MARSHALL, MICHIGAN

## Statement of Net Assets

### Proprietary Funds

June 30, 2006

	Business-type Activities - Enterprise Funds						Governmental Activities - Internal Service Funds
	Electric	Wastewater	Water	DART	Marshall House	Total	
<b>Assets</b>							
Current assets:							
Cash and cash equivalents	\$ 896,565	\$ 57,747	\$ 184,851	\$ 15,948	\$ 90,913	\$ 1,246,024	\$ 273,498
Investments	125,342	258,786	591,053	160,621	416,480	1,552,282	956,856
Accounts receivable	751,936	105,665	121,492	95	491	979,679	-
Taxes receivable	-	-	-	4	-	4	-
Due from other governments	-	-	-	1,196	-	1,196	-
Inventory	766,404	9,683	61,645	-	-	837,732	-
Prepaid items	65,007	23,029	17,390	9,887	9,548	124,861	31,716
Total current assets	<u>2,605,254</u>	<u>454,910</u>	<u>976,431</u>	<u>187,751</u>	<u>517,432</u>	<u>4,741,778</u>	<u>1,262,070</u>
Noncurrent assets:							
Restricted cash and cash equivalents	999,447	661,830	480,836	-	-	2,142,113	-
Capital assets, net	5,317,082	5,031,577	7,123,141	142,829	300,981	17,915,610	1,342,295
Investment in MSCPA	4,201,144	-	-	-	-	4,201,144	-
Unamortized bond issuance costs	31,411	82,931	137,214	-	-	251,556	-
Total noncurrent assets	<u>10,549,084</u>	<u>5,776,338</u>	<u>7,741,191</u>	<u>142,829</u>	<u>300,981</u>	<u>24,510,423</u>	<u>1,342,295</u>
Total assets	<u>13,154,338</u>	<u>6,231,248</u>	<u>8,717,622</u>	<u>330,580</u>	<u>818,413</u>	<u>29,252,201</u>	<u>2,604,365</u>
<b>Liabilities</b>							
Current liabilities:							
Accounts payable	908,307	7,625	15,591	4,248	24,103	959,874	23,588
Accrued payroll and compensated absences	111,232	53,676	31,083	20,293	11,695	227,979	2,099
Accrued interest payable	17,031	24,016	47,494	-	-	88,541	753
Due to other governments	(107)	7	79	1,528	33	1,540	-
Current portion of:							
Contracts payable	32,000	-	-	-	-	32,000	20,000
Bonds payable	112,000	214,027	300,974	-	-	627,001	-
Total current liabilities	<u>1,180,463</u>	<u>299,351</u>	<u>395,221</u>	<u>26,069</u>	<u>35,831</u>	<u>1,936,935</u>	<u>46,440</u>
Noncurrent liabilities:							
Contracts payable	73,000	788,477	197,823	-	-	1,059,300	70,000
Bonds payable	961,579	2,520,626	3,901,511	-	-	7,383,716	-
Total noncurrent liabilities	<u>1,034,579</u>	<u>3,309,103</u>	<u>4,099,334</u>	<u>-</u>	<u>-</u>	<u>8,443,016</u>	<u>70,000</u>
Total liabilities	<u>2,215,042</u>	<u>3,608,454</u>	<u>4,494,555</u>	<u>26,069</u>	<u>35,831</u>	<u>10,379,951</u>	<u>116,440</u>
<b>Net assets</b>							
Invested in capital assets, net of related debt	4,138,503	1,508,447	2,722,833	142,829	300,981	8,813,593	1,252,295
Restricted for debt service	999,447	661,830	480,836	-	-	2,142,113	-
Unrestricted	5,801,346	452,517	1,019,398	161,682	481,601	7,916,544	1,235,630
Total net assets	<u>\$ 10,939,296</u>	<u>\$ 2,622,794</u>	<u>\$ 4,223,067</u>	<u>\$ 304,511</u>	<u>\$ 782,582</u>	<u>\$ 18,872,250</u>	<u>\$ 2,487,925</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF MARSHALL, MICHIGAN**  
**Reconciliation of Net Assets on the Statement of**  
**Net Assets for Enterprise Funds to Net Assets of**  
**Business-type Activities on the Statement of Net Assets**  
**June 30, 2006**

<b>Net assets - total enterprise funds</b>	<b>\$ 18,872,250</b>
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Amounts reported for *business-type activities* in the statement of net assets are different because:

Internal service funds are used by management to charge the costs of certain services to individual governmental and business-type funds. The net revenue (expense) of the internal service funds are allocated to governmental and business-type activities.

Add - cumulative portion of internal service funds net operating income attributed to business-type funds	<u>38,798</u>
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<b>Net assets of business-type activities</b>	<b><u><u>\$ 18,911,048</u></u></b>
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The accompanying notes are an integral part of these financial statements.

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<b>Business-type Activities - Enterprise Funds</b>						<b>Governmental Activities - Internal Service Funds</b>
	<b>Electric</b>	<b>Wastewater</b>	<b>Water</b>	<b>DART</b>	<b>Marshall House</b>	<b>Total</b>	
<b>Operating revenues</b>							
Property taxes	\$ -	\$ -	\$ -	\$ 104,800	\$ -	\$ 104,800	\$ -
Charges for services	12,648,605	1,210,601	1,557,366	57,024	-	15,473,596	817,851
Other	24,536	1,140	28,325	7,208	318,152	379,361	50,930
Total operating revenues	12,673,141	1,211,741	1,585,691	169,032	318,152	15,957,757	868,781
<b>Operating expenses</b>							
Personal services	1,243,788	364,066	449,130	270,320	151,047	2,478,351	50,652
Materials and supplies	307,161	127,324	137,260	30,054	9,796	611,595	162,903
Purchased power	9,275,553	93,992	55,629	-	115,737	9,540,911	-
Contractual	120,606	106,298	29,462	1,374	136,265	394,005	34,370
Insurance	189,826	51,802	38,280	3,005	13,473	296,386	42,487
Maintenance	4,666	698	730	27,850	30,763	64,707	138,988
Other expense	182,475	24,617	49,879	18,983	11,071	287,025	47,394
Depreciation	628,083	361,036	290,993	70,035	60,846	1,410,993	324,641
Total operating expenses	11,952,158	1,129,833	1,051,363	421,621	528,998	15,083,973	801,435
Operating income (loss)	720,983	81,908	534,328	(252,589)	(210,846)	873,784	67,346
<b>Nonoperating revenues (expenses)</b>							
Intergovernmental subsidies	-	-	3,072	217,366	311,944	532,382	-
Investment earnings	69,507	28,874	20,243	5,508	17,539	141,671	36,293
Change in investment in MSCPA	547,485	-	-	-	-	547,485	-
Interest expense	(59,737)	(131,904)	(252,238)	-	-	(443,879)	(5,468)
Total nonoperating revenues (expenses)	557,255	(103,030)	(228,923)	222,874	329,483	777,659	30,825
Income (loss) before contributions and transfers	1,278,238	(21,122)	305,405	(29,715)	118,637	1,651,443	98,171
<b>Capital contributions</b>	-	28,595	13,184	-	-	41,779	-
<b>Transfers in</b>	-	-	-	-	-	-	70,750
<b>Transfers out</b>	(381,743)	(50,860)	(43,310)	-	(238,000)	(713,913)	-
Change in net assets	896,495	(43,387)	275,279	(29,715)	(119,363)	979,309	168,921
Net assets, beginning of year	10,042,801	2,666,181	3,947,788	334,226	901,945	17,892,941	2,319,004
<b>Net assets, end of year</b>	<u>\$ 10,939,296</u>	<u>\$ 2,622,794</u>	<u>\$ 4,223,067</u>	<u>\$ 304,511</u>	<u>\$ 782,582</u>	<u>\$ 18,872,250</u>	<u>\$ 2,487,925</u>

The accompanying notes are an integral part of these financial statements.

**CITY OF MARSHALL, MICHIGAN**  
**Reconciliation of the Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets of Enterprise Funds**  
**to the Statement of Activities**  
**For the Year Ended June 30, 2006**

<b>Change in net assets - total enterprise funds</b>	\$ 979,309
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Amounts reported for *business-type activities* in the statement of activities are different because:

Internal service funds are used by management to charge the costs of certain services to individual governmental and business-type funds. The net revenue (expense) of the internal service funds are allocated to governmental and business-type activities.

Add - net operating income from internal service funds related to enterprise funds	<u>8,433</u>
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<b>Change in net assets of business-type activities</b>	<u><u>\$ 987,742</u></u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<b>Business-type Activities - Enterprise Funds</b>						<b>Governmental Activities - Internal Service Funds</b>
	<b>Electric</b>	<b>Wastewater</b>	<b>Water</b>	<b>DART</b>	<b>Marshall House</b>	<b>Total</b>	
<b>Cash flows from operating activities</b>							
Receipts from customers and users	\$ 12,624,572	\$ 1,177,847	\$ 1,596,385	\$ 143,763	\$ 320,213	\$ 15,862,780	\$ -
Receipts from property taxes	-	-	-	104,800	-	104,800	-
Receipts from interfund services	-	-	-	-	-	-	868,781
Payments to suppliers	(10,210,839)	(399,847)	(340,026)	(81,305)	(321,589)	(11,353,606)	(450,587)
Payments to employees	(1,293,216)	(385,120)	(468,521)	(282,127)	(156,469)	(2,585,453)	(51,843)
Payments for interfund services	(113,895)	(12,880)	(33,912)	(2,145)	(6,434)	(169,266)	-
Net cash provided by (used in) operating activities	1,006,622	380,000	753,926	(117,014)	(164,279)	1,859,255	366,351
<b>Cash flows from non-capital financing activities</b>							
Transfers in	-	-	-	-	-	-	70,750
Transfers out	(381,743)	(50,860)	(43,310)	-	(238,000)	(713,913)	-
Intergovernmental subsidies	-	-	3,072	217,366	311,944	532,382	-
Net cash provided by (used in) non-capital financing activities	(381,743)	(50,860)	(40,238)	217,366	73,944	(181,531)	70,750
<b>Cash flows from capital and related financing activities</b>							
Principal and interest paid on debt	(166,158)	(364,146)	(549,966)	-	-	(1,080,270)	(25,751)
Purchase of capital assets	(507,416)	6,322	(143,460)	-	(17,503)	(662,057)	(465,403)
Net cash provided by (used in) capital and related financing activities	(673,574)	(357,824)	(693,426)	-	(17,503)	(1,742,327)	(491,154)
<b>Cash flows from investing activities</b>							
Purchase of investments	-	-	-	(95,055)	-	(95,055)	(27,207)
Proceeds from investments	197,300	93,593	11,890	-	74,292	377,075	69,510
Interest received on investments	69,507	28,874	20,243	5,508	17,539	141,671	36,293
Net cash provided by (used in) investing activities	266,807	122,467	32,133	(89,547)	91,831	423,691	78,596
Net increase (decrease) in cash and cash equivalents	218,112	93,783	52,395	10,805	(16,007)	359,088	24,543
<b>Cash and cash equivalents:</b>							
Beginning of year	1,677,900	625,794	613,292	5,143	106,920	3,029,049	248,955
<b>End of year</b>	<b>\$ 1,896,012</b>	<b>\$ 719,577</b>	<b>\$ 665,687</b>	<b>\$ 15,948</b>	<b>\$ 90,913</b>	<b>\$ 3,388,137</b>	<b>\$ 273,498</b>
<b>Reconciliation to statement of net assets</b>							
Cash and cash equivalents	\$ 896,565	\$ 57,747	\$ 184,851	\$ 15,948	\$ 90,913	\$ 1,246,024	\$ 273,498
Restricted cash and cash equivalents	999,447	661,830	480,836	-	-	2,142,113	-
	<u>\$ 1,896,012</u>	<u>\$ 719,577</u>	<u>\$ 665,687</u>	<u>\$ 15,948</u>	<u>\$ 90,913</u>	<u>\$ 3,388,137</u>	<u>\$ 273,498</u>

Continued...

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Cash Flows (Concluded)**  
**Proprietary Funds**  
**For the Year Ended June 30, 2006**

	<b>Business-type Activities - Enterprise Funds</b>						<b>Governmental Activities - Internal Service Funds</b>
	<b>Electric</b>	<b>Wastewater</b>	<b>Water</b>	<b>DART</b>	<b>Marshall House</b>	<b>Total</b>	
<b>Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:</b>							
Operating income (loss)	\$ 720,983	\$ 81,908	\$ 534,328	\$ (252,589)	\$ (210,846)	\$ 873,784	\$ 67,346
Adjustments to reconcile operating income (loss) to net cash from operating activities:							
Depreciation	628,083	361,036	290,993	70,035	60,846	1,410,993	324,641
Amortization of bond premiums and issuance costs	2,646	6,019	11,792	-	-	20,457	-
Changes in assets and liabilities:							
Accounts receivable	(48,569)	(33,894)	(11,156)	(95)	2,061	(91,653)	-
Taxes receivable	-	-	-	(4)	-	(4)	-
Due from other governments	-	-	21,850	79,630	-	101,480	7,630
Inventories	14,152	(2,062)	4,130	-	-	16,220	-
Prepaid items	(6,452)	(853)	1,979	(550)	914	(4,962)	(5,844)
Accounts payable	(221,834)	(11,100)	(80,599)	(1,634)	(11,832)	(326,999)	(26,231)
Accrued payroll and compensated absences	(49,428)	(21,054)	(19,391)	(11,807)	(5,422)	(107,102)	(1,191)
Due to other governments	(32,959)	-	-	-	-	(32,959)	-
<b>Net cash provided by (used in) operating activities:</b>	<b>\$ 1,006,622</b>	<b>\$ 380,000</b>	<b>\$ 753,926</b>	<b>\$ (117,014)</b>	<b>\$ (164,279)</b>	<b>\$ 1,859,255</b>	<b>\$ 366,351</b>
<b>Non-Cash Items:</b>							
Change in investment in MSCPA	\$ 547,485	\$ -	\$ -	\$ -	\$ -	\$ 547,485	\$ -
Capital contributions	-	28,595	13,184	-	-	41,779	-

The accompanying notes are an integral part of these financial statements.

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**June 30, 2006**

**Assets**

Cash and cash equivalents	\$ 47,611
Delinquent taxes receivable	<u>63,370</u>
 Total assets	 <u><u>\$ 110,981</u></u>

**Liabilities**

Undistributed receipts	<u><u>\$ 110,981</u></u>
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The accompanying notes are an integral part of these financial statements.

**COMPONENT UNITS  
FINANCIAL STATEMENTS**

**CITY OF MARSHALL, MICHIGAN**  
**Combining Statement of Net Assets**  
**Component Units**  
**June 30, 2006**

	<b>Downtown Development Authority</b>	<b>Local Development Finance Authority</b>	<b>Economic Development Corporation</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 2,194	\$ 127,218	\$ 8,853	\$ 138,265
Investments	241,838	1,110,609	-	1,352,447
Prepaid items	796	10,195	-	10,991
Unamortized bond issuance costs	-	50,944	-	50,944
Restricted cash	62,348	42,616	-	104,964
<b>Total assets</b>	<b>307,176</b>	<b>1,341,582</b>	<b>8,853</b>	<b>1,657,611</b>
<b>Liabilities</b>				
Accounts payable	3,830	74,290	-	78,120
Accrued liabilities	794	-	-	794
Accrued interest payable	6,301	13,417	-	19,718
Long-term liabilities:				
Due within one year	110,000	25,000	-	135,000
Due in more than one year	665,000	1,295,000	-	1,960,000
<b>Total liabilities</b>	<b>785,925</b>	<b>1,407,707</b>	<b>-</b>	<b>2,193,632</b>
<b>Net assets</b>				
Restricted for debt service	62,348	42,616	-	104,964
Unrestricted (deficit)	(541,097)	(108,741)	8,853	(640,985)
<b>Total net assets (deficit)</b>	<b>\$ (478,749)</b>	<b>\$ (66,125)</b>	<b>\$ 8,853</b>	<b>\$ (536,021)</b>

The accompanying notes are an integral part of these financial statements.

**CITY OF MARSHALL, MICHIGAN**  
**Combining Statement of Activities**  
**Component Units**  
**For the Year Ended June 30, 2006**

	<b>Downtown Development Authority</b>	<b>Local Development Finance Authority</b>	<b>Economic Development Corporation</b>	<b>Total</b>
<b>Expenses</b>				
Community development	\$ 271,141	\$ 1,591,418	\$ 131	\$ 1,862,690
<b>Program revenues</b>				
Operating grants and contributions	102,946	570	-	103,516
Net program expense	168,195	1,590,848	131	1,759,174
<b>General revenues</b>				
Property taxes	278,012	452,866	-	730,878
Unrestricted investment earnings	15,395	61,513	144	77,052
Total general revenues	293,407	514,379	144	807,930
Change in net assets	125,212	(1,076,469)	13	(951,244)
Net assets (deficit), beginning of year	(603,961)	1,010,344	8,840	415,223
<b>Net assets (deficit), end of year</b>	<u>\$ (478,749)</u>	<u>\$ (66,125)</u>	<u>\$ 8,853</u>	<u>\$ (536,021)</u>

The accompanying notes are an integral part of these financial statements.

## NOTES to the FINANCIAL STATEMENTS

**CITY OF MARSHALL, MICHIGAN**  
**NOTES TO FINANCIAL STATEMENTS**  
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# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

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### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Marshall, Michigan (the “City” or “government”) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City’s accounting policies are described below.

#### 1-A Reporting Entity

The City of Marshall, Michigan is a municipal corporation formed in 1830 and governed by a seven-member council and administered by an appointed city manager. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are in substance part of the government’s operations. Discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government. The blended and discretely presented component units each have a June 30 year-end.

<u>Component Unit</u>	<u>Included in the Reporting Entity Because</u>
<i><b>Blended:</b></i>	
Building Authority; finances and constructs the City’s Public buildings and other structures	Provides services exclusively to the City
<i><b>Discretely Presented:</b></i>	
Downtown Development Authority (DDA); corrects and prevents deterioration in the downtown district, encourages historical preservation and promotes economic growth within the district	City Council appoints and may remove DDA Board, and approves DDA budget
Local Development Finance Authority (LDFA); enhances and expands industrial development to eliminate the conditions of joblessness and underemployment	City Council appoints and may remove LDFA Board, and approves LDFA budget
Economic Development Corporation (EDC); promotes economic development in the community	City Council appoints and may remove EDC Board, and approves EDC budget

Separate financial statements are not prepared for the discretely presented component units; accordingly, fund financial statements for these entities are presented herein as supplementary information.

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

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### 1-B Basis of Presentation

*Government-wide Financial Statements.* The statements of net assets and activities display information about the primary government (the City) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the City's *governmental* and *business-type activities*. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements.* The fund financial statements provide information about the City's funds, including its fiduciary funds and blended component unit. Separate statements for each fund category – *governmental*, *proprietary* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following major governmental funds:

The *general fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *special projects fund* accounts for various grant and nongrant funded programs.

The City reports the following major enterprise funds:

The *electric fund* accounts for the operation and maintenance of the electric supply system; financing is provided primarily by user charges.

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

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The *wastewater fund* accounts for the activities of the government's sewage disposal and treatment system.

The *water fund* accounts for the activities of the government's water distribution and treatment system.

The *Dial-A-Ride transportation (DART) fund* accounts for the operation and maintenance of a local public transportation system.

The *Marshall House fund* accounts for the activities of a lower-income senior citizen housing facility.

Additionally, the City reports the following fund types:

*Special revenue funds.* These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

*Debt service funds.* These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

*Capital projects funds.* These funds account for the acquisition of capital assets or construction of major capital projects not being financed by proprietary funds.

*Permanent fund.* This fund accounts for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs.

*Internal service funds.* These funds account for operations that provide services to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis. This includes machinery, equipment and building space management services; liability, auto, and workers' compensation self-insurance; information technology services; and printing, mailing and reproduction services.

*Agency funds.* These funds account for assets held for other governments in an agency capacity.

### 1-C Measurement Focus / Basis of Accounting

*Government-wide, Proprietary and Fiduciary Fund Financial Statements.* The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

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Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

*Governmental Fund Financial Statements.* Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if they are collected within sixty days after year-end or one year for expenditure-driven grants. Property taxes, franchise taxes, licenses and interest are considered to be susceptible to accrual.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, compensated absences, and claims and judgments, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases, if any, are reported as other financing sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues, subject to satisfying any grant program matching provisions.

All governmental and business-type activities and enterprise funds of the City follow private-sector standards of accounting and financial reported issued prior to December 1, 1989, unless those standards conflict with guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

### **1-D Assets, Liabilities and Equity**

#### **Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

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State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers' acceptances, and mutual funds composed of otherwise legal investments.

Investments are reported at fair value.

### **Interfund Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either *interfund receivables/payables* (i.e., the current portion of interfund loans) or *advances to/from other funds* (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as *due to/from other funds*. Any residual balances outstanding between the governmental and business-type activities are reported in the government-wide financial statements as *internal balances*.

### **Inventories, Prepaid Items and Other Assets**

All inventories are valued at cost using the first-in/first-out method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

The City's equity interest in the Michigan South Central Power Agency, along with unamortized bond issuance costs, are recorded as other assets in the government-wide financial statements.

### **Restricted Cash and Cash Equivalents**

Certain proceeds of bond issues as well as other resources set aside for the repayment of debt are classified as restricted cash and cash equivalents on the statement of net assets because their use is limited by applicable bond covenants.

### **Capital Assets**

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, sidewalks, and similar items acquired or constructed since 1980), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

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Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed.

Infrastructure acquired or constructed since 1980 has been recorded in the governmental activities of the accompanying statement of net assets.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<b><u>Assets</u></b>	<b><u>Years</u></b>
Land improvements	5-50
Buildings and building improvements	5-50
Public domain infrastructure	50
Systems infrastructure	25-50
Machinery and equipment	3-15

### **Compensated Absences**

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits, subject to certain limitations. All vacation and sick pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

### **Long-term Obligations**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

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In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Fund balance designations represent tentative management plans that are subject to change.

## **NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

### **2-A Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at year end. The legal level of budgetary control is the functional level.

On or before its first meeting in April of each year, the City Manager must present the proposed budget to the government's council for review. The proposed budget must be on file and available for public inspection for a period of not less than one week prior to adoption by City Council, which must occur not later than the first meeting in June.

Formal budgetary integration is employed as a management control during the year. Supplemental appropriations were approved by the City Council in the form of budget amendment resolutions or as part of special authorizing motions for grants, bonds or notes, the total of which was not significant in relation to the original budget appropriation valuations.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders or contracts) outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

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### 2-B Excess of Expenditures Over Appropriations

State statutes provide that a local unit shall not incur expenditures in excess of the amount appropriated. The approved budgets of the City were adopted on a function level basis, although budget and actual information in the fund financial statements have been presented at a level of detail greater than the level of legal budgetary control.

During the year ended June 30, 2006, the City incurred expenditures in excess of the amounts appropriated at the legal level of budgetary control in the following funds:

	<u>Amended Budget</u>	<u>Actual</u>	<u>Over Budget</u>
<b>General fund</b>			
Public works	\$ 847,500	\$ 848,198	\$ 698
Debt service	122,984	135,670	12,686
<b>Special projects fund</b>			
General government	-	634,170	634,170
Public safety	-	743,054	743,054
<b>Nonmajor special revenue funds</b>			
Major street fund:			
Debt service	159,460	159,610	150
Capital outlay	59,250	111,255	52,005
Drug law enforcement fund -			
General government	-	209	209
<b>Discretely presented component units</b>			
Local Development Financing Authority Fund -			
Debt service	74,418	130,724	56,306
Economic Development Corporation Fund -			
Community development	-	131	131

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

### NOTE 3 – DETAILED NOTES ON ACCOUNT BALANCES

#### 3-A Deposits and Investments

Following is a reconciliation of deposit and investment balances as of June 30, 2006:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Total</u>
<b>Statement of Net Assets:</b>			
Cash and cash equivalents	\$ 2,455,261	\$ 138,265	\$ 2,593,526
Investments	5,872,170	1,352,447	7,224,617
Restricted cash and cash equivalents	2,142,113	104,964	2,247,077
<b>Statement of Fiduciary Net Assets:</b>			
Pooled cash and investments	<u>47,611</u>	<u>-</u>	<u>47,611</u>
<b>Total</b>	<b><u>\$ 10,517,155</u></b>	<b><u>\$ 1,595,676</u></b>	<b><u>\$ 12,112,831</u></b>
<b>Deposits and Investments:</b>			
Bank deposits (checking, savings and certificates of deposit)			\$ 3,546,092
Investments (securities, commercial paper and money market accounts)			8,565,869
Cash on hand			<u>870</u>
<b>Total</b>			<b><u>\$ 12,112,831</u></b>

*Custodial Credit Risk - Deposits.* For deposits, custodial credit risk is the risk, that in the event of a bank failure, the City's deposits may not be returned to the government. As of June 30, 2006, \$2,900,728 of the City's total bank balance of \$3,896,974 (total book balance was \$3,546,092) was exposed to custodial credit risk as it was uninsured and uncollateralized.

The City's investment policy does not specifically address this risk, although the City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

*Custodial Credit Risk - Investments.* Following is a summary of the City's investments as of June 30, 2006:

U.S. treasuries	\$ 1,016,813
U.S. agencies	1,325,441
Commercial paper	1,242,361
Money market accounts	4,464,826
External governmental investment fund	<u>516,428</u>
<b>Total</b>	<b><u>\$ 8,565,869</u></b>

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery *vs.* payment. As of June 30, 2006, none of the City's investments, excluding the money market accounts which are not subject to custodial credit risk, were exposed to risk since the securities are held in the City's name by the counterparty.

*Credit Risk.* As of June 30, 2006, all of the City's investments in securities of U.S. agencies were rated AAA by Standard & Poor's. All its investments in commercial paper were rated A1 by Standard & Poor's. The City also held investments in U.S. treasuries and money market mutual funds, which are not rated. All of the City's investments comply with its policy regarding the types of investments it may hold.

*Concentration of Credit Risk.* At June 30, 2006, the investment portfolio was concentrated as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>% of Portfolio</u>	<u>Amount</u>
U.S. agencies	Federal Home Loan Bank	10.4%	\$ 889,050
Commercial paper	Picaros Funding LLC	6.1%	526,473

The City's investment policy provides that, except for U.S. treasuries and authorized investment pools, no more than 50 percent of the total investment portfolio may be invested in a single security type or with a single financial institution. The City's investments comply with this policy.

*Interest Rate Risk.* As of June 30, 2006, maturities of the City's debt securities were as follows:

	<u>Fair Value</u>	<u>Investment Maturities (fair value by years)</u>	
		<u>Less Than 1</u>	<u>1-5</u>
U.S. treasuries	\$ 1,016,813	\$ 797,390	\$ 219,423
U.S. agencies:			
Callable	1,177,878	388,001	789,877
Non-callable	147,563	-	147,563
Commercial paper	1,242,361	1,242,361	-
<b>Total debt securities</b>	<b><u>\$ 3,584,615</u></b>	<b><u>\$ 2,427,752</u></b>	<b><u>\$ 1,156,863</u></b>

The City assumes that its callable investments will not be called.

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

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It is the City's policy that, unless matched to a specific cash flow, the government will not directly invest in securities maturing more than three years from the date of purchase. Reserve funds may be invested in securities exceeding three years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds. The City's investments comply with this policy.

### 3-B Receivables

Receivables in the governmental activities are 36.9 percent accounts receivables and 63.1 percent due from other governments. Business-type activities receivables are 100 percent accounts receivable.

The governmental activities accounts receivable includes \$39,857 due from the local ambulance service for its share of the purchase price of emergency vehicles. Accordingly, this is considered a non-current receivable.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
<b>Deferred revenue reported by:</b>			
General fund	\$ -	\$ 460	\$ 460
Nonmajor governmental funds	<u>-</u>	<u>18,919</u>	<u>18,919</u>
<b>Total</b>	<u>\$ -</u>	<u>\$ 19,379</u>	<u>\$ 19,379</u>

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

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### 3-C Investment in the Michigan South Central Power Agency

The Michigan South Central Power Agency (MSCPA or the “Agency”) was organized in 1978 under the authority of Public Act 448 of 1976 to supply electricity to member municipalities in south central Michigan. The Act provides that the MSCPA establish rates and charges to produce revenues sufficient to cover its costs, but may not operate for profit, except for the public benefit. The MSCPA is governed by a board of commissioners, comprised of one representative from each member municipality and the MSCPA general manager. Member municipalities and their respective shares of ownership are as follows:

	<u>% of Ownership</u>
City of Coldwater	40.0%
City of Hillsdale	25.5%
City of Marshall	24.0%
Village of Clinton	6.5%
Village of Union City	4.0%
	<u><u>100.0%</u></u>

The City has entered into a contract with the MSCPA that requires the City to purchase all of its bulk power supply from the Agency and to pay its share of the Agency’s operating and debt service costs. The City has also entered into an agreement for services to be provided by the Agency with respect to substation facilities, which requires the City to sell to the Agency power generated by the City’s facilities.

The City accounts for its investment in the MSCPA as a joint venture in accordance with GASB Statement No. 14. Information presented below is taken from financial statements of the MSCPA for the year ended June 30, 2006, which was audited by other auditors whose report dated August 10, 2006, expressed an unqualified opinion on those financial statements.

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

Summary information of the City's equity interest in the MSCPA as of June 30, 2006, is as follows:

	<u>MSCPA</u>	<u>City of Marshall Portion - 24.0%</u>
<b>Assets</b>		
Current assets	\$ 17,342,188	\$ 4,162,124
Non-current assets	22,562,490	5,414,998
Capital assets, net	36,336,950	8,720,868
	<u>76,241,628</u>	<u>18,297,990</u>
<b>Liabilities</b>		
Current liabilities	11,941,487	2,865,957
Long-term debt	46,795,374	11,230,890
	<u>58,736,861</u>	<u>14,096,847</u>
<b>Net assets</b>	<b><u>\$ 17,504,767</u></b>	<b><u>\$ 4,201,143</u></b>
Revenues	\$ 44,961,391	\$ 10,790,734
Expenses	<u>37,275,616</u>	<u>8,946,148</u>
Operating income	7,685,775	1,844,586
Non-operating expenses	<u>3,035,237</u>	<u>728,458</u>
Income before change in accounting principal	4,650,538	1,116,128
Change in Acc Princ	<u>(2,369,352)</u>	<u>(568,644)</u>
Change in Net Assets	2,281,186	547,484
Net assets:		
Beginning of year	<u>15,223,581</u>	<u>3,653,659</u>
End of year	<b><u>\$ 17,504,767</u></b>	<b><u>\$ 4,201,144</u></b>

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

### 3-D Capital Assets

Capital assets activity for the year ended June 30, 2006, was as follows:

#### Primary government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental activities</b>				
Capital assets, not being depreciated -				
Land	\$ 2,232,662	\$ -	\$ -	\$ 2,232,662
Construction in process	-	300,619	-	300,619
Total capital assets not being depreciated	<u>2,232,662</u>	<u>300,619</u>	<u>-</u>	<u>2,533,281</u>
Capital assets, being depreciated:				
Land improvements	5,441,697	-	(568,100)	4,873,597
Buildings	8,735,881	-	-	8,735,881
Vehicles	2,086,215	444,875	(41,303)	2,489,787
Equipment	1,474,420	28,040	(207,388)	1,295,072
Infrastructure	7,724,365	-	-	7,724,365
Total capital assets being depreciated	<u>25,462,578</u>	<u>472,915</u>	<u>(816,791)</u>	<u>25,118,702</u>
Less accumulated depreciation for:				
Land improvements	(1,532,771)	(272,902)	171,226	(1,634,447)
Buildings	(4,442,884)	(200,174)	-	(4,643,058)
Vehicles	(1,071,382)	(291,429)	41,303	(1,321,508)
Equipment	(1,300,858)	(54,924)	207,388	(1,148,394)
Infrastructure	(1,658,914)	(154,487)	-	(1,813,401)
Total accumulated depreciation	<u>(10,006,809)</u>	<u>(973,916)</u>	<u>419,917</u>	<u>(10,560,808)</u>
Total capital assets, being depreciated, net	<u>15,455,769</u>	<u>(501,001)</u>	<u>(396,874)</u>	<u>14,557,894</u>
<b>Governmental activities capital assets, net</b>	<b><u>\$ 17,688,431</u></b>	<b><u>\$ (200,382)</u></b>	<b><u>\$ (396,874)</u></b>	<b><u>\$ 17,091,175</u></b>
<b>Business-type activities</b>				
Capital assets, not being depreciated -				
Land	\$ 164,618	\$ -	\$ -	\$ 164,618
Construction in process	403,938	110,764	(403,938)	110,764
Total capital assets not being depreciated	<u>568,556</u>	<u>110,764</u>	<u>(403,938)</u>	<u>275,382</u>
Capital assets, being depreciated:				
Buildings	4,826,918	17,505	-	4,844,423
Vehicles	930,416	-	-	930,416
Equipment	1,462,799	29,352	(42,833)	1,449,318
Systems	29,179,939	955,404	(74,591)	30,060,752
Total capital assets being depreciated	<u>36,400,072</u>	<u>1,002,261</u>	<u>(117,424)</u>	<u>37,284,909</u>
Less accumulated depreciation for:				
Buildings	(2,265,431)	(199,658)	-	(2,465,089)
Vehicles	(421,653)	(59,273)	-	(480,926)
Equipment	(887,941)	(90,980)	37,635	(941,286)
Systems	(14,770,836)	(1,061,082)	74,538	(15,757,380)
Total accumulated depreciation	<u>(18,345,861)</u>	<u>(1,410,993)</u>	<u>112,173</u>	<u>(19,644,681)</u>
Total capital assets, being depreciated, net	<u>18,054,211</u>	<u>(408,732)</u>	<u>(5,251)</u>	<u>17,640,228</u>
<b>Business-type activities capital assets, net</b>	<b><u>\$ 18,622,767</u></b>	<b><u>\$ (297,968)</u></b>	<b><u>\$ (409,189)</u></b>	<b><u>\$ 17,915,610</u></b>

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 90,073
Public safety	27,989
Public works, including depreciation of general infrastructure assets	378,307
Parks and recreation	112,435
Community development	40,471
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>324,641</u>
<b>Total depreciation expense - governmental activities</b>	<b><u>\$ 973,916</u></b>
Business-type activities:	
Electric	\$ 628,083
Wastewater	361,036
Water	290,993
Public transit	70,035
Marshall House	<u>60,846</u>
<b>Total depreciation expense - business-type activities</b>	<b><u>\$ 1,410,993</u></b>

### 3-E Payables

Payables in the governmental activities are 45.7 percent vendors and 54.3 percent accrued payroll. Business-type activities are 77.7 percent vendors, 20.2 percent accrued payroll and compensated absences and 2.1 percent due to other governments.

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

### 3-F Interfund Transfers

For the year ended June 30, 2006, interfund transfers consisted of the following:

<u>Transfer out:</u>	<u>Transfer in:</u>			<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Internal Service Funds</u>	
General fund	\$ -	\$ 53,254	\$ 25,750	\$ 79,004
Nonmajor governmental funds	-	256,115	-	256,115
Electric fund	170,460	211,283	-	381,743
Wastewater fund	5,860	-	45,000	50,860
Water fund	16,900	26,410	-	43,310
Marshall House fund	-	238,000	-	238,000
	<u>\$ 193,220</u>	<u>\$ 785,062</u>	<u>\$ 70,750</u>	<u>\$ 1,049,032</u>

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

### 3-G Long-term Debt

*General obligation bonds.* The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. During the year, new and refunding general obligation bonds were issued.

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

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General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
<b>Governmental activities</b>		
1997 building authority refunding	4.60% - 4.80%	\$ 595,000
1999 transportation fund bonds	4.05% - 4.60%	665,000
2000 building authority	5.40%	490,000
2004 improvements	3.00% - 4.40%	165,000
2004 street improvements refunding	3.00% - 3.38%	375,000
2005 building authority refunding	3.00% - 4.25%	<u>2,575,000</u>
		<b><u>\$ 4,865,000</u></b>
<b>Business-type activities</b>		
1996 water supply	5.10% - 5.75%	\$ 1,065,000
1997 water supply	4.70% - 5.75%	2,455,000
2004 improvements	3.00% - 4.70%	620,000
2004 refunding	3.00% - 3.75%	<u>115,000</u>
		<b><u>\$ 4,255,000</u></b>
<b>Discretely presented component unit</b>		
1992 downtown development refunding	5.60% - 5.65%	\$ 90,000
2002 downtown development	4.20% - 5.10%	<u>685,000</u>
		<b><u>\$ 775,000</u></b>

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30,	Governmental		Business-type		Component Unit	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 465,000	\$ 328,004	\$ 300,000	\$ 219,270	\$ 110,000	\$ 37,808
2008	485,000	308,033	305,000	206,146	20,000	31,883
2009	480,000	287,157	325,000	192,416	25,000	31,043
2010	285,000	267,882	310,000	177,210	25,000	29,993
2011	300,000	125,752	325,000	162,021	30,000	28,943
2012-2016	1,395,000	445,665	1,755,000	552,224	190,000	122,700
2017-2021	1,455,000	157,095	810,000	125,435	300,000	67,057
2022-2024	-	-	125,000	12,220	75,000	3,825
	<u>\$ 4,865,000</u>	<u>\$ 1,919,588</u>	<u>\$ 4,255,000</u>	<u>\$ 1,646,942</u>	<u>\$ 775,000</u>	<u>\$ 353,252</u>

*Revenue bonds.* The City also issues bonds where the income derived from the acquired or constructed assets is pledged to pay debt service. During the year, the LDFA issued \$1,360,000 of revenue bonds. Revenue bonds outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
<b>Business-type activities</b>		
1989 wastewater	2.00%	\$ 545,000
1993 water	5.15% - 5.30%	115,000
1999 electric	4.25% - 5.20%	950,000
1999 water and wastewater	5.13% - 5.20%	2,110,000
		<u><b>\$ 3,720,000</b></u>
<b>Discretely presented component unit</b>		
2005 local development	3.50% - 4.30%	<u><b>\$ 1,320,000</b></u>

Revenue bond debt service requirements to maturity are as follows:

Year Ending June 30,	Business-type		Component Unit	
	Principal	Interest	Principal	Interest
2007	\$ 295,001	\$ 169,284	\$ 25,000	\$ 53,668
2008	300,001	158,677	25,000	52,792
2009	245,001	147,614	25,000	51,918
2010	250,001	139,502	25,000	51,042
2011	185,001	130,742	25,000	50,105
2012-2016	1,230,001	480,149	360,000	222,542
2017-2021	1,214,994	128,055	455,000	138,705
2022-2025	-	-	380,000	40,755
	<u>\$ 3,720,000</u>	<u>\$ 1,354,023</u>	<u>\$ 1,320,000</u>	<u>\$ 661,527</u>

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

*Installment Obligations.* The government has entered into various long-term installment payment agreements. No new installment obligations were entered into during the current year. Installment obligations outstanding at year-end are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
<b>Governmental activities</b>		
1996 public improvement (Stanton)	9.00%	\$ 114,128
1999 emergency rescue	5.65%	90,000
2002 land contract (Quigley)	5.43%	470,013
2004 ambulance	3.29%	39,857
2006 communication equipment	4.00%	<u>181,422</u>
		<b><u>\$ 895,420</u></b>
<b>Business-type activities</b>		
1996 public improvement (Stanton)	9.00%	\$ 266,300
2000 fuel tanks	5.25%	137,000
2002 public improvement (State Farm)	0.00%	<u>720,000</u>
		<b><u>\$1,123,300</u></b>

The annual principal maturities for the amounts payable on the 1996 public improvements (Stanton) are determined each year based on the following formula: taxable value of certain properties times the City operating millage rate (less 4 mills for public safety and township) less interest calculated on the outstanding principal balance. Any unpaid principal as of December 31, 2010 will be forgiven by the terms of the agreement.

Repayment of the 2002 public improvements (State Farm) is contingent upon the company constructing a new building in the City. While this agreement matures October 1, 2015, repayment is unlikely since the company has closed its existing offices in the City and consolidated its operations in another location.

Annual debt service requirements to maturity for installment obligations, except as noted above, are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Governmental</u>		<u>Business-type</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 121,160	\$ 39,293	\$ 32,000	\$ 7,193
2008	127,362	31,961	33,000	5,513
2009	137,630	25,423	35,000	3,780
2010	137,086	18,477	37,000	1,943
2011	111,522	12,262	-	-
2012-2013	146,532	7,157	-	-
	<u>781,292</u>	<u>134,573</u>	<u>137,000</u>	<u>18,429</u>
Stanton	114,128	-	266,300	-
State Farm	-	-	720,000	-
	<b><u>\$ 895,420</u></b>	<b><u>\$ 134,573</u></b>	<b><u>\$ 1,123,300</u></b>	<b><u>\$ 18,429</u></b>

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

*Changes in Long-Term Debt.* Long-term liability activity for the year ended June 30, 2006, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b><u>Primary Government</u></b>					
<b>Governmental activities</b>					
General obligation bonds	\$ 5,345,000	\$ -	\$ (480,000)	\$ 4,865,000	\$ 465,000
Installment contracts	811,837	181,422	(97,838)	895,421	121,160
Compensated absences	280,446	98,156	(131,760)	246,842	86,394
Add (deduct) deferred amounts:					
For issuance premiums	7,650	-	(403)	7,247	-
On refunding	(197,407)	-	12,981	(184,426)	-
	<b>\$ 6,247,526</b>	<b>\$ 279,578</b>	<b>\$ (697,020)</b>	<b>\$ 5,830,084</b>	<b>\$ 672,554</b>
<b>Business-type activities</b>					
General obligation bonds	\$ 4,550,000	\$ -	\$ (295,000)	\$ 4,255,000	\$ 300,000
Revenue bonds	4,005,001	-	(285,001)	3,720,000	295,001
Installment contracts	1,173,960	-	(50,660)	1,123,300	32,000
Add deferred amounts -					
For issuance premiums	3,923	-	(206)	3,717	-
	<b>\$ 9,732,884</b>	<b>\$ -</b>	<b>\$ (630,867)</b>	<b>\$ 9,102,017</b>	<b>\$ 627,001</b>
<b><u>Component Units - LDFA</u></b>					
Revenue bonds	\$ -	\$ 1,360,000	\$ (40,000)	\$ 1,320,000	\$ 25,000
<b><u>Component Units - DDA</u></b>					
Revenue bonds	\$ 870,000	\$ -	\$ (95,000)	\$ 775,000	\$ 110,000

For the governmental activities, compensated absences are generally liquidated by the general fund.

# **CITY OF MARSHALL, MICHIGAN**

## **Notes To Financial Statements**

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### **3-H Segment Information – Enterprise Funds**

The government issued revenue bonds to finance certain improvements to its electric, water and wastewater system. Because the Electric, Water and Wastewater Funds are segments and are reported as a major funds in the fund financial statements, segment disclosures herein are not required.

### **NOTE 4 – OTHER INFORMATION**

#### **4-A Risk Management**

The government is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended June 30, 2006, the government carried insurance through various commercial carriers, including the Michigan Municipal League, to cover all risks of losses. The government has had no settled claims resulting from these risks that exceeded its commercial coverage in any of the past three fiscal years.

#### **4-B Property Taxes**

The government's property taxes are levied each July 1 on the taxable valuation of property located in the City as of the preceding December 31, the lien date. Property taxes are payable without penalty and interest through September 15; as of March 1 of the succeeding year, unpaid real property taxes are sold to and collected by Calhoun County. Assessed values, as established annually by the government and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. The taxable value of real and personal property in the City for the 2005 levy, including industrial facilities, was \$251,423,917. The government's general operating tax rate for fiscal 2005-06 was 15.4629 mills with an additional 0.8165 mills for recreation 0.4840 for public transportation, and 1.6129 for DDA (based on 10,034,730 taxable value).

Property taxes for the DDA and LDFA are derived from tax increment financing agreements with the various applicable taxing authorities. Under these arrangements, the DDA and LDFA receives the property taxes levied on the increment of current taxable values over the base year values on those properties located within the established tax increment financing district.

Property taxes are recognized in the fiscal year in which they are levied.

#### **4-C Contingent Liabilities**

Amounts received or receivable from grantor agencies are subject to audit and potential adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

# **CITY OF MARSHALL, MICHIGAN**

## **Notes To Financial Statements**

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The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

### **4-D Postemployment Benefits**

The City provides health care benefits, including prescriptions, to eligible retirees and their dependents upon retirement. Employees who retired on or before March 31, 2003 are not required to contribute to the cost of these benefits; employees retiring after that date are required to contribute five percent of the cost of the health care insurance premium.

Expenditures for postemployment health care benefits are recorded on a pay-as-you-go basis. During the year, 60 retirees were eligible, resulting in expenditures of \$429,108.

### **4-E Defined Benefit Pension Plan**

The City participates in the Municipal Employees Retirement System of Michigan (MERS), an agent multiple-employer plan administered by the Retirement Board of MERS. The Plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to Plan members and beneficiaries. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

The City was not required to contribute any amounts for the year ended June 30, 2006. City employees are required to contribute 5.82% to 10.39% of their annual covered payroll, depending on the applicable bargaining unit. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City, subject to collective bargaining agreements and depending on the MERS contribution program adopted by the City.

For the year ended June 30, 2006, the City's annual pension cost of \$136,075 was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included: (a) a rate of return on the investment of present and future assets of 8.0%; (b) projected salary increase of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 4.2% per year, depending on age, attributable to seniority/merit.

# CITY OF MARSHALL, MICHIGAN

## Notes To Financial Statements

The actuarial value of MERS assets was determined on the basis of a valuation method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2005, the date of the latest actuarial valuation, was 30 years.

### Three-Year Trend Information

<u>Annual Years Ended June 30,</u>	<u>Pension Cost (APC)</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2004	\$ -	N/A	\$ -
2005	-	N/A	-
2006	136,075	100%	-

### Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>(a) Actuarial Value of Assets</u>	<u>(b) Actuarial Accrued Liability (AAL) Entry Age</u>	<u>(b-a) Unfunded AAL (UAAL)</u>	<u>Funded Ratio Total</u>	<u>(c) Covered Payroll</u>	<u>((b-a)/c) UAAL as a Percentage of Covered Payroll</u>
12/31/02	\$19,720,188	\$16,573,087	\$(3,147,101)	119%	\$3,973,746	(79)%
12/31/03	20,517,832	19,935,535	(582,297)	103%	3,839,753	(15)%
12/31/04	21,006,550	21,189,467	182,917	99%	4,102,546	4%
12/31/05	21,572,620	23,110,895	1,538,275	93%	4,132,958	37%

#### 4-F Restatements

The beginning fund balance of the major street special revenue fund was decreased by \$11,165 to correct for a prior year revenue recognition error.

Also, the beginning net assets of the governmental activities was decreased by \$408,042; \$396,877 for duplicate capital assets recorded in the prior year and \$11,165 for the matter described above.

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**COMBINING and INDIVIDUAL FUND FINANCIAL  
STATEMENTS and SCHEDULES**

**CITY OF MARSHALL, MICHIGAN**  
**Combining Balance Sheet - Nonmajor Governmental Funds**  
**June 30, 2006**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent Cemetery</u>	<u>Totals</u>
<b><u>ASSETS</u></b>					
<b>Assets</b>					
Cash and cash equivalents	\$ 93,110	\$ 15,376	\$ 15,805	\$ 117,700	\$ 241,991
Investments	346,026	-	190,769	443,387	980,182
Accounts receivable	7	-	-	847	854
Due from other governments	86,209	-	-	-	86,209
Prepaid items	21,679	-	-	-	21,679
<b><u>TOTAL ASSETS</u></b>	<u>\$ 547,031</u>	<u>\$ 15,376</u>	<u>\$ 206,574</u>	<u>\$ 561,934</u>	<u>\$ 1,330,915</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>					
<b>Liabilities</b>					
Accounts payable	\$ 62,762	\$ -	\$ -	\$ -	\$ 62,762
Accrued liabilities	6,531	-	-	-	6,531
Due to other governments	60	-	-	-	60
Deferred revenue	18,919	-	-	-	18,919
Total liabilities	88,272	-	-	-	88,272
<b>Fund balances</b>					
Reserved for prepaid items	21,679	-	-	-	21,679
Unreserved:					
Designated for other purposes	3,550	-	-	-	3,550
Designated for subsequent year expenditures	94,488	-	-	-	94,488
Undesignated	339,042	15,376	206,574	561,934	1,122,926
Total fund balances	458,759	15,376	206,574	561,934	1,242,643
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<u>\$ 547,031</u>	<u>\$ 15,376</u>	<u>\$ 206,574</u>	<u>\$ 561,934</u>	<u>\$ 1,330,915</u>

**CITY OF MARSHALL, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balances - Nonmajor Governmental Funds**  
**For the Year Ended June 30, 2006**

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Permanent Cemetery</u>	<u>Totals</u>
<b>Revenues</b>					
Property taxes	\$ 176,811	\$ -	\$ -	\$ -	\$ 176,811
Intergovernmental	605,419	-	-	-	605,419
Charges for services	194,118	-	-	6,430	200,548
Fines and forfeitures	24,503	-	-	-	24,503
Investment earnings	17,129	320	6,783	-	24,232
Other	16,080	-	-	19,352	35,432
	<u>1,034,060</u>	<u>320</u>	<u>6,783</u>	<u>25,782</u>	<u>1,066,945</u>
<b>Expenditures</b>					
Current expenditures:					
General government	65,969	450	71	-	66,490
Highways and streets	250,564	-	-	-	250,564
Parks and recreation	374,984	-	-	-	374,984
Debt service:					
Principal	115,000	355,000	-	-	470,000
Interest and fiscal charges	44,610	146,654	-	-	191,264
	<u>1,030,348</u>	<u>502,104</u>	<u>71</u>	<u>-</u>	<u>1,532,523</u>
Revenues over (under) expenditures	<u>3,712</u>	<u>(501,784)</u>	<u>6,712</u>	<u>25,782</u>	<u>(465,578)</u>
<b>Other financing sources (uses)</b>					
Transfers in	94,809	502,104	188,149	-	785,062
Transfers out	(67,966)	-	(188,149)	-	(256,115)
	<u>26,843</u>	<u>502,104</u>	<u>-</u>	<u>-</u>	<u>528,947</u>
Net change in fund balances	30,555	320	6,712	25,782	63,369
Fund balances, beginning of year, as restated	<u>428,204</u>	<u>15,056</u>	<u>199,862</u>	<u>536,152</u>	<u>1,179,274</u>
<b>Fund balances, end of year</b>	<u>\$ 458,759</u>	<u>\$ 15,376</u>	<u>\$ 206,574</u>	<u>\$ 561,934</u>	<u>\$ 1,242,643</u>

**CITY OF MARSHALL, MICHIGAN**  
**Combining Balance Sheet - Nonmajor Special Revenue Funds**  
**June 30, 2006**

	<u>Major Street</u>	<u>Local Street</u>	<u>Composting</u>	<u>Parking System</u>	<u>Drug Law Enforcement</u>	<u>Recreation</u>	<u>Total</u>
<b><u>ASSETS</u></b>							
<b>Assets</b>							
Cash and cash equivalents	\$ 4,517	\$60,955	\$ 19,229	\$ 881	\$ 5,344	\$ 2,184	\$ 93,110
Investments	140,247	20	-	8	-	205,751	346,026
Accounts receivable	-	-	-	-	-	7	7
Due from other governments	63,744	22,465	-	-	-	-	86,209
Prepaid items	-	1,633	272	684	-	19,090	21,679
<b><u>TOTAL ASSETS</u></b>	<u>\$208,508</u>	<u>\$85,073</u>	<u>\$ 19,501</u>	<u>\$ 1,573</u>	<u>\$ 5,344</u>	<u>\$ 227,032</u>	<u>\$ 547,031</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>							
<b>Liabilities</b>							
Accounts payable	\$ 56,131	\$ -	\$ 78	\$ -	\$ -	\$ 6,553	\$ 62,762
Accrued liabilities	-	-	149	-	-	6,382	6,531
Due to other governments	-	-	-	-	-	60	60
Deferred revenue	-	-	-	-	-	18,919	18,919
Total liabilities	<u>56,131</u>	<u>-</u>	<u>227</u>	<u>-</u>	<u>-</u>	<u>31,914</u>	<u>88,272</u>
<b>Fund balances</b>							
Reserved for prepaid items	-	1,633	272	684	-	19,090	21,679
Unreserved:							
Designated for other purposes	-	-	-	-	-	3,550	3,550
Designated for subsequent year expenditures	82,488	-	-	-	-	12,000	94,488
Undesignated	<u>69,889</u>	<u>83,440</u>	<u>19,002</u>	<u>889</u>	<u>5,344</u>	<u>160,478</u>	<u>339,042</u>
Total fund balances	<u>152,377</u>	<u>85,073</u>	<u>19,274</u>	<u>1,573</u>	<u>5,344</u>	<u>195,118</u>	<u>458,759</u>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<u>\$208,508</u>	<u>\$85,073</u>	<u>\$ 19,501</u>	<u>\$ 1,573</u>	<u>\$ 5,344</u>	<u>\$ 227,032</u>	<u>\$ 547,031</u>

**CITY OF MARSHALL, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2006**

	<u>Major Street</u>	<u>Local Street</u>	<u>Composting</u>	<u>Parking System</u>	<u>Drug Law Enforcement</u>	<u>Recreation</u>	<u>Total</u>
<b>Revenues</b>							
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 176,811	\$ 176,811
Intergovernmental	413,948	170,896	14,200	6,375	-	-	605,419
Charges for services	-	-	5,544	-	-	188,574	194,118
Fines and forfeitures	-	-	-	24,503	-	-	24,503
Investment earnings	7,859	798	385	2	82	8,003	17,129
Other	-	-	-	-	624	15,456	16,080
Total revenues	<u>421,807</u>	<u>171,694</u>	<u>20,129</u>	<u>30,880</u>	<u>706</u>	<u>388,844</u>	<u>1,034,060</u>
<b>Expenditures</b>							
Current expenditures:							
General government	-	-	30,847	34,913	209	-	65,969
Highways and streets	122,511	128,053	-	-	-	-	250,564
Parks and recreation	-	-	-	-	-	374,984	374,984
Debt service:							
Principal	115,000	-	-	-	-	-	115,000
Interest and fiscal charges	44,610	-	-	-	-	-	44,610
Capital outlay	<u>111,255</u>	<u>67,966</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>179,221</u>
Total expenditures	<u>393,376</u>	<u>196,019</u>	<u>30,847</u>	<u>34,913</u>	<u>209</u>	<u>374,984</u>	<u>1,030,348</u>
Revenues over (under) expenditures	<u>28,431</u>	<u>(24,325)</u>	<u>(10,718)</u>	<u>(4,033)</u>	<u>497</u>	<u>13,860</u>	<u>3,712</u>
<b>Other financing sources (uses)</b>							
Transfers in	-	67,966	14,200	5,000	-	7,643	94,809
Transfers out	<u>(67,966)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(67,966)</u>
Total other financing sources (uses)	<u>(67,966)</u>	<u>67,966</u>	<u>14,200</u>	<u>5,000</u>	<u>-</u>	<u>7,643</u>	<u>26,843</u>
Net change in fund balances	(39,535)	43,641	3,482	967	497	21,503	30,555
Fund balances, beginning of year, as restated	<u>191,912</u>	<u>41,432</u>	<u>15,792</u>	<u>606</u>	<u>4,847</u>	<u>173,615</u>	<u>428,204</u>
<b>Fund balances, end of year</b>	<u>\$ 152,377</u>	<u>\$ 85,073</u>	<u>\$ 19,274</u>	<u>\$ 1,573</u>	<u>\$ 5,344</u>	<u>\$ 195,118</u>	<u>\$ 458,759</u>

**CITY OF MARSHALL, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Final Budget and Actual - Nonmajor Special Revenue Funds**  
**For the Year Ended June 30, 2006**

	<b>Major Street Fund</b>		
	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>Revenues</b>			
Property taxes	\$ -	\$ -	\$ -
Intergovernmental	390,263	413,948	23,685
Charges for services	-	-	-
Fines and forfeitures	-	-	-
Investment earnings	2,300	7,859	5,559
Other	-	-	-
Total revenues	<u>392,563</u>	<u>421,807</u>	<u>29,244</u>
<b>Expenditures</b>			
Current expenditures:			
General government	-	-	-
Highways and streets	157,688	122,511	(35,177)
Parks and recreation	-	-	-
Debt service:			
Principal	115,000	115,000	-
Interest and fiscal charges	44,460	44,610	150
Capital outlay	<u>59,250</u>	<u>111,255</u>	<u>52,005</u>
Total expenditures	<u>376,398</u>	<u>393,376</u>	<u>16,978</u>
Revenues over (under) expenditures	<u>16,165</u>	<u>28,431</u>	<u>12,266</u>
<b>Other financing sources (uses)</b>			
Transfers in	-	-	-
Transfers out	<u>(87,400)</u>	<u>(67,966)</u>	<u>19,434</u>
Total other financing sources (uses)	<u>(87,400)</u>	<u>(67,966)</u>	<u>19,434</u>
Net change in fund balances	(71,235)	(39,535)	31,700
Fund balances, beginning of year, as restated	<u>191,912</u>	<u>191,912</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u><u>\$ 120,677</u></u>	<u><u>\$ 152,377</u></u>	<u><u>\$ 31,700</u></u>

Local Street Fund			Composting Fund		
Final Budget	Actual	Actual Over (Under) Final Budget	Final Budget	Actual	Actual Over (Under) Final Budget
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
140,346	170,896	30,550	14,200	14,200	-
-	-	-	4,000	5,544	1,544
-	-	-	-	-	-
1,000	798	(202)	125	385	260
-	-	-	-	-	-
141,346	171,694	30,348	18,325	20,129	1,804
-	-	-	43,920	30,847	(13,073)
141,263	128,053	(13,210)	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
77,400	67,966	(9,434)	-	-	-
218,663	196,019	(22,644)	43,920	30,847	(13,073)
(77,317)	(24,325)	52,992	(25,595)	(10,718)	14,877
67,400	67,966	566	14,200	14,200	-
-	-	-	-	-	-
67,400	67,966	566	14,200	14,200	-
(9,917)	43,641	53,558	(11,395)	3,482	14,877
41,432	41,432	-	15,792	15,792	-
\$ 31,515	\$ 85,073	\$ 53,558	\$ 4,397	\$ 19,274	\$ 14,877

Continued...

**CITY OF MARSHALL, MICHIGAN**  
**Schedule of Revenues, Expenditures and Changes in Fund Balance -**  
**Final Budget and Actual - Nonmajor Special Revenue Funds (Concluded)**  
**For the Year Ended June 30, 2006**

	<b>Parking System Fund</b>		
	<b>Final Budget</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>Revenues</b>			
Property taxes	\$ -	\$ -	\$ -
Intergovernmental	8,500	6,375	(2,125)
Charges for services	-	-	-
Fines and forfeitures	20,000	24,503	4,503
Investment earnings	20	2	(18)
Other	-	-	-
Total revenues	<u>28,520</u>	<u>30,880</u>	<u>2,360</u>
<b>Expenditures</b>			
Current expenditures:			
General government	35,839	34,913	(926)
Parks and recreation	-	-	-
Parks and recreation	-	-	-
Parks and recreation	-	-	-
Parks and recreation	-	-	-
Parks and recreation	-	-	-
Capital outlay	-	-	-
Total expenditures	<u>35,839</u>	<u>34,913</u>	<u>(926)</u>
Revenues over (under) expenditures	<u>(7,319)</u>	<u>(4,033)</u>	<u>3,286</u>
<b>Other financing sources (uses)</b>			
Transfers in	7,319	5,000	(2,319)
Transfers out	-	-	-
Total other financing sources (uses)	<u>7,319</u>	<u>5,000</u>	<u>(2,319)</u>
Net change in fund balances	-	967	967
Fund balances, beginning of year	<u>606</u>	<u>606</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u><u>\$ 606</u></u>	<u><u>\$ 1,573</u></u>	<u><u>\$ 967</u></u>

Drug Law Enforcement Fund			Recreation Fund		
Final Budget	Actual	Actual Over (Under) Final Budget	Final Budget	Actual	Actual Over (Under) Final Budget
\$ -	\$ -	\$ -	\$ 175,400	\$ 176,811	\$ 1,411
-	-	-	-	-	-
-	-	-	173,864	188,574	14,710
-	-	-	-	-	-
-	82	82	7,482	8,003	521
-	624	624	13,811	15,456	1,645
-	706	706	370,557	388,844	18,287
-	209	209	-	-	-
-	-	-	-	-	-
-	-	-	388,210	374,984	(13,226)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	209	209	388,210	374,984	(13,226)
-	497	497	(17,653)	13,860	31,513
-	-	-	15,286	7,643	(7,643)
-	-	-	-	-	-
-	-	-	15,286	7,643	(7,643)
-	497	497	(2,367)	21,503	23,870
4,847	4,847	-	173,615	173,615	-
\$ 4,847	\$ 5,344	\$ 497	\$ 171,248	\$ 195,118	\$ 23,870

**CITY OF MARSHALL, MICHIGAN**  
**Combining Balance Sheet - Nonmajor Debt Service Funds**  
**June 30, 2006**

	<u>Building Authority</u>	<u>1999 Motor Vehicle Highway</u>	<u>1986 Motor Vehicle Highway</u>	<u>Total</u>
<b><u>ASSETS</u></b>				
<b>Assets</b>				
Cash and cash equivalents	<u>\$      9,032</u>	<u>\$      6,194</u>	<u>\$          150</u>	<u>\$    15,376</u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>				
<b>Fund balances</b>				
Unreserved, undesignated	<u>\$      9,032</u>	<u>\$      6,194</u>	<u>\$          150</u>	<u>\$    15,376</u>

**CITY OF MARSHALL, MICHIGAN**  
**Combining Statement of Revenues, Expenditures and**  
**Changes in Fund Balance - Nonmajor Debt Service Funds**  
**For the Year Ended June 30, 2006**

	<u>Building Authority</u>	<u>1999 Motor Vehicle Highway</u>	<u>1986 Motor Vehicle Highway</u>	<u>Total</u>
<b>Revenues</b>				
Investment earnings	\$ 88	\$ 227	\$ 5	\$ 320
<b>Expenditures</b>				
Current expenditures -				
General government	450	-	-	450
Debt service:				
Principal retirement	355,000	-	-	355,000
Interest and fiscal charges	146,654	-	-	146,654
	<u>502,104</u>	<u>-</u>	<u>-</u>	<u>502,104</u>
Revenues over (under) expenditures	(502,016)	227	5	(501,784)
<b>Other financing sources (uses)</b>				
Transfers in	<u>502,104</u>	<u>-</u>	<u>-</u>	<u>502,104</u>
Net change in fund balances	88	227	5	320
Fund balances, beginning of year	<u>8,944</u>	<u>5,967</u>	<u>145</u>	<u>15,056</u>
<b>Fund balances, end of year</b>	<u><u>\$ 9,032</u></u>	<u><u>\$ 6,194</u></u>	<u><u>\$ 150</u></u>	<u><u>\$ 15,376</u></u>

**CITY OF MARSHALL, MICHIGAN**  
**Combining Balance Sheet - Nonmajor Capital Projects Funds**  
**June 30, 2006**

	<u><b>MVH Major Streets</b></u>	<u><b>MVH Local Streets</b></u>	<u><b>Total</b></u>
<b><u>ASSETS</u></b>			
<b>Assets</b>			
Cash and cash equivalents	\$ 7,450	\$ 8,355	\$ 15,805
Investments	<u>190,769</u>	<u>-</u>	<u>190,769</u>
<b><u>TOTAL ASSETS</u></b>	<u><u>\$ 198,219</u></u>	<u><u>\$ 8,355</u></u>	<u><u>\$ 206,574</u></u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ -	\$ -
<b>Fund balances</b>			
Unreserved, undesignated	<u>198,219</u>	<u>8,355</u>	<u>206,574</u>
<b><u>TOTAL LIABILITIES AND FUND BALANCES</u></b>	<u><u>\$ 198,219</u></u>	<u><u>\$ 8,355</u></u>	<u><u>\$ 206,574</u></u>

**CITY OF MARSHALL, MICHIGAN**  
**Combining Statement of Revenue, Expenditures and**  
**Changes in Fund Balance - Nonmajor Capital Projects Funds**  
**For the Year Ended June 30, 2006**

	<b>MVH Major Streets</b>	<b>MVH Local Streets</b>	<b>Total</b>
<b>Revenue</b>			
Investment earnings	\$ 2,741	\$ 4,042	\$ 6,783
<b>Expenditures</b>			
Current expenditures -			
General government	33	38	71
Revenue over (under) expenditures	2,708	4,004	6,712
<b>Other financing sources (uses)</b>			
Transfers in	188,149	-	188,149
Transfers out	-	(188,149)	(188,149)
Total other financing sources (uses)	188,149	(188,149)	-
Net change in fund balances	190,857	(184,145)	6,712
Fund balances, beginning of year	7,362	192,500	199,862
<b>Fund balances, end of year</b>	<b>\$ 198,219</b>	<b>\$ 8,355</b>	<b>\$ 206,574</b>

**CITY OF MARSHALL, MICHIGAN**  
**Supplemental Schedule of Operating Expenses**  
**Electric, Wastewater and Water Enterprise Funds**  
**For the Year Ended June 30, 2006**

	<u>Electric</u>	<u>Wastewater</u>	<u>Water</u>	<u>Total</u>
<b>Administration</b>				
Personal services	\$ 318,533	\$ 151,160	\$ 226,614	\$ 696,307
Materials and supplies	24,273	9,294	10,796	44,363
Purchased power	-	-	-	-
Contractual	50,676	12,112	12,622	75,410
Insurance	189,826	51,802	38,280	279,908
Maintenance	1,600	698	698	2,996
Other expense	21,532	11,415	13,693	46,640
Depreciation	31,895	28,198	-	60,093
	<u>638,335</u>	<u>264,679</u>	<u>302,703</u>	<u>1,205,717</u>
<b>Powerhouse</b>				
Personal services	316,222	-	-	316,222
Materials and supplies	125,737	-	-	125,737
Purchased power	9,275,553	-	-	9,275,553
Contractual	34,223	-	-	34,223
Maintenance	572	-	-	572
Other expense	13,125	-	-	13,125
Depreciation	243,239	-	-	243,239
	<u>10,008,671</u>	<u>-</u>	<u>-</u>	<u>10,008,671</u>
<b>Line distribution</b>				
Personal services	609,033	-	166,625	775,658
Materials and supplies	157,151	-	60,209	217,360
Purchased power	-	-	2,337	2,337
Contractual	35,707	-	12,243	47,950
Maintenance	2,494	-	32	2,526
Other expense	147,818	-	27,790	175,608
Depreciation	352,949	-	257,093	610,042
	<u>1,305,152</u>	<u>-</u>	<u>526,329</u>	<u>1,831,481</u>
<b>Operations</b>				
Personal services	-	212,906	-	212,906
Materials and supplies	-	118,030	-	118,030
Purchased power	-	93,992	-	93,992
Contractual	-	94,186	-	94,186
Other expense	-	13,202	-	13,202
Depreciation	-	332,838	-	332,838
	<u>-</u>	<u>865,154</u>	<u>-</u>	<u>865,154</u>

Continued...

**CITY OF MARSHALL, MICHIGAN**  
**Supplemental Schedule of Operating Expenses (Concluded)**  
**Electric, Wastewater and Water Enterprise Funds**  
**For the Year Ended June 30, 2006**

	<u>Electric</u>	<u>Wastewater</u>	<u>Water</u>	<u>Total</u>
<b>Production</b>				
Personal services	\$ -	\$ -	\$ 55,891	\$ 55,891
Materials and supplies	-	-	66,255	66,255
Purchased power	-	-	53,292	53,292
Contractual	-	-	4,597	4,597
Other expense	-	-	8,396	8,396
Depreciation	-	-	33,900	33,900
	<u>-</u>	<u>-</u>	<u>222,331</u>	<u>222,331</u>
<b>Totals</b>				
Personal services	1,243,788	364,066	449,130	2,056,984
Materials and supplies	307,161	127,324	137,260	571,745
Purchased power	9,275,553	93,992	55,629	9,425,174
Contractual	120,606	106,298	29,462	256,366
Insurance	189,826	51,802	38,280	279,908
Maintenance	4,666	698	730	6,094
Other expense	182,475	24,617	49,879	256,971
Depreciation	628,083	361,036	290,993	1,280,112
	<u>\$ 11,952,158</u>	<u>\$ 1,129,833</u>	<u>\$ 1,051,363</u>	<u>\$ 14,133,354</u>

**CITY OF MARSHALL, MICHIGAN**  
**Supplemental Schedule of Revenues and Expenses**  
**Dial-A-Ride Transportation Fund**  
**For the Year Ended June 30, 2006**

<b>Schedule 1</b>	7/1/05 to 9/30/05	10/1/05 to 6/30/06	Total
<b>Operating revenues -</b>			
Passenger fares - local bus operating	\$ 14,050	\$ 42,974	\$ 57,024

<b>Schedule 2</b>	Operations	Maintenance	Administration	Total
<b>Operating expenses:</b>				
Labor	\$ 198,093	\$ 2,579	\$ 10,190	\$ 210,862
Fringe benefits	60,034	663	1,896	62,593
Services	7,148	-	13,791	20,939
Materials and supplies	46,579	-	-	46,579
Utilities	7,270	-	-	7,270
Miscellaneous	3,005	-	338	3,343
Depreciation	70,035	-	-	70,035
	<u>\$ 392,164</u>	<u>\$ 3,242</u>	<u>\$ 26,215</u>	<u>\$ 421,621</u>

<b>Schedule 3</b>	7/1/05 to 9/30/05	10/1/05 to 6/30/06	Total
<b>Non-operating revenues:</b>			
Local:			
City of Marshall (property taxes)	\$ 105,054	\$ (254)	\$ 104,800
Investment earnings	432	5,076	5,508
	<u>105,486</u>	<u>4,822</u>	<u>110,308</u>
State grants -			
Local bus operating assistance	32,243	131,004	163,247
Federal grants:			
Section 5311	13,409	40,710	54,119
<b>Total non-operating revenues</b>	<u>\$ 151,138</u>	<u>\$ 176,536</u>	<u>\$ 327,674</u>

Continued...

**CITY OF MARSHALL, MICHIGAN**  
**Supplemental Schedule of Revenues and Expenses (Concluded)**  
**Dial-A-Ride Transportation Fund**  
**For the Year Ended June 30, 2006**

	Federal Section 5311		Local Bus Operating Assistance	
	7/1/05 to 9/30/05	10/1/05 to 6/30/06	7/1/05 to 9/30/05	10/1/05 to 6/30/06
<b>Schedule 5</b>				
<b>Operating expenses:</b>				
Labor	\$ 53,771	\$ 157,091	\$ 53,771	\$ 157,091
Fringe benefits	15,053	47,540	15,053	47,540
Services	2,697	18,242	2,697	18,242
Materials and supplies	12,803	33,776	12,803	33,776
Utilities	175	7,095	175	7,095
Miscellaneous	-	3,343	-	3,343
Depreciation	17,629	52,406	17,629	52,406
	<u>102,128</u>	<u>319,493</u>	<u>102,128</u>	<u>319,493</u>
<b>Less ineligible expenses -</b>				
Ineligible depreciation	<u>(17,629)</u>	<u>(52,406)</u>	<u>(17,629)</u>	<u>(52,406)</u>
<b>Net eligible expenses</b>	\$ 84,499	\$ 267,087	\$ 84,499	\$ 267,087
Reimbursement percentage	<u>12.40%</u>	<u>15.00%</u>	<u>39.9234%</u>	<u>39.2546%</u>
<b>Maximum reimbursement/assistance</b>	<u>\$ 10,478</u>	<u>\$ 40,063</u>	<u>\$ 33,735</u>	<u>\$ 104,844</u>

**Schedule 6**

**Miles - demand response**

7/1/05 to 9/30/05	18,072
10/1/05 to 12/31/05	20,692
1/1/06 to 3/31/06	20,801
4/1/06 to 6/30/06	17,654
	<u>77,219</u>

**CITY OF MARSHALL, MICHIGAN**  
**Combining Statement of Net Assets**  
**Internal Service Funds**  
**June 30, 2006**

	<b>Data Processing</b>	<b>Motor Pool</b>	<b>Safety</b>	<b>Total</b>
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 37,730	\$ 235,756	\$ 12	\$ 273,498
Investments	205,755	716,576	34,525	956,856
Prepaid items	1,365	30,351	-	31,716
Total current assets	244,850	982,683	34,537	1,262,070
Noncurrent assets:				
Capital assets, net	56,479	1,285,816	-	1,342,295
Total assets	301,329	2,268,499	34,537	2,604,365
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	6,744	16,557	287	23,588
Accrued payroll and compensated absences	-	2,099	-	2,099
Accrued interest payable	-	753	-	753
Contracts payable, current portion	-	20,000	-	20,000
Total current liabilities	6,744	39,409	287	46,440
Noncurrent liabilities -				
Contracts payable	-	70,000	-	70,000
Total liabilities	6,744	109,409	287	116,440
<b>Net assets</b>				
Invested in capital assets, net of related debt	56,479	1,195,816	-	1,252,295
Unrestricted	238,106	963,274	34,250	1,235,630
Total net assets	\$ 294,585	\$ 2,159,090	\$ 34,250	\$ 2,487,925

**CITY OF MARSHALL, MICHIGAN**  
**Combining Statement of Revenues, Expenses**  
**and Changes in Fund Net Assets**  
**Internal Service Funds**  
**For the Year Ended June 30, 2006**

	<u>Data Processing</u>	<u>Motor Pool</u>	<u>Safety</u>	<u>Total</u>
<b>Operating revenues</b>				
Charges for services	\$ 111,527	\$ 706,324	\$ -	\$ 817,851
Other	317	49,653	960	50,930
	<u>111,844</u>	<u>755,977</u>	<u>960</u>	<u>868,781</u>
<b>Operating expenses</b>				
Personal services	-	50,652	-	50,652
Materials and supplies	36,257	124,918	1,728	162,903
Contractual	29,666	4,701	3	34,370
Insurance	193	42,294	-	42,487
Maintenance	744	138,244	-	138,988
Other expense	4,873	42,521	-	47,394
Depreciation	20,627	304,014	-	324,641
	<u>92,360</u>	<u>707,344</u>	<u>1,731</u>	<u>801,435</u>
Total operating expenses				
	<u>92,360</u>	<u>707,344</u>	<u>1,731</u>	<u>801,435</u>
Operating income (loss)	<u>19,484</u>	<u>48,633</u>	<u>(771)</u>	<u>67,346</u>
<b>Nonoperating revenues (expenses)</b>				
Investment earnings	7,375	27,713	1,205	36,293
Interest expense	-	(5,468)	-	(5,468)
Total nonoperating revenues (expenses)	<u>7,375</u>	<u>22,245</u>	<u>1,205</u>	<u>30,825</u>
Income before transfers	26,859	70,878	434	98,171
<b>Transfers in</b>	<u>-</u>	<u>70,750</u>	<u>-</u>	<u>70,750</u>
Change in net assets	26,859	141,628	434	168,921
Net assets, beginning of year	<u>267,726</u>	<u>2,017,462</u>	<u>33,816</u>	<u>2,319,004</u>
<b>Net assets, end of year</b>	<u>\$ 294,585</u>	<u>\$ 2,159,090</u>	<u>\$ 34,250</u>	<u>\$ 2,487,925</u>

**CITY OF MARSHALL, MICHIGAN**  
**Combining Statement of Cash Flows**  
**Internal Service Funds**  
**For the Year Ended June 30, 2006**

	<u>Data Processing</u>	<u>Motor Pool</u>	<u>Safety</u>	<u>Total</u>
<b>Cash flows from operating activities</b>				
Receipts from interfund services	\$ 111,844	\$ 755,977	\$ 960	\$ 868,781
Payments to suppliers/claimants	(57,182)	(391,465)	(1,940)	(450,587)
Payments to employees	<u>-</u>	<u>(51,843)</u>	<u>-</u>	<u>(51,843)</u>
Net cash provided by (used in) operating activities	<u>54,662</u>	<u>312,669</u>	<u>(980)</u>	<u>366,351</u>
<b>Cash flows from non-capital financing activities</b>				
Transfers in	<u>-</u>	<u>70,750</u>	<u>-</u>	<u>70,750</u>
<b>Cash flows from capital and related financing activities</b>				
Principal and interest paid on contract	-	(25,751)	-	(25,751)
Purchase of capital assets	<u>(20,528)</u>	<u>(444,875)</u>	<u>-</u>	<u>(465,403)</u>
Net cash used in capital and related financing activities	<u>(20,528)</u>	<u>(470,626)</u>	<u>-</u>	<u>(491,154)</u>
<b>Cash flows from investing activities</b>				
Purchase of investments	(26,973)	-	(234)	(27,207)
Proceeds from investments	-	69,510	-	69,510
Interest received on investments	<u>7,375</u>	<u>27,713</u>	<u>1,205</u>	<u>36,293</u>
Net cash provided by (used in) investing activities	<u>(19,598)</u>	<u>97,223</u>	<u>971</u>	<u>78,596</u>
Net increase (decrease) in pooled cash and investments	14,536	10,016	(9)	24,543
Cash and cash equivalents, beginning of year	<u>23,194</u>	<u>225,740</u>	<u>21</u>	<u>248,955</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 37,730</u></u>	<u><u>\$ 235,756</u></u>	<u><u>\$ 12</u></u>	<u><u>\$ 273,498</u></u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities</b>				
Operating income (loss)	\$ 19,484	\$ 48,633	\$ (771)	\$ 67,346
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation	20,627	304,014	-	324,641
Changes in assets and liabilities:				
Due from other governments	-	7,630	-	7,630
Prepaid items	9,337	(15,181)	-	(5,844)
Accounts payable	5,214	(31,236)	(209)	(26,231)
Accrued payroll/compensated absences	<u>-</u>	<u>(1,191)</u>	<u>-</u>	<u>(1,191)</u>
<b>Net cash provided by (used in) operating activities</b>	<u><u>\$ 54,662</u></u>	<u><u>\$ 312,669</u></u>	<u><u>\$ (980)</u></u>	<u><u>\$ 366,351</u></u>

**CITY OF MARSHALL, MICHIGAN**  
**Combining Statement of Fiduciary Assets and Liabilities**  
**Agency Funds**  
**June 30, 2006**

	<u>Current Tax</u>	<u>Imprest Payroll</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 7,348	\$ 40,263	\$ 47,611
Delinquent taxes receivable	<u>63,370</u>	<u>-</u>	<u>63,370</u>
Total assets	<u><u>\$ 70,718</u></u>	<u><u>\$ 40,263</u></u>	<u><u>\$ 110,981</u></u>
<b>Liabilities</b>			
Undistributed receipts	<u><u>\$ 70,718</u></u>	<u><u>\$ 40,263</u></u>	<u><u>\$ 110,981</u></u>

## DISCRETELY PRESENTED COMPONENT UNITS

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Net Assets and**  
**Governmental Fund Balance Sheet**  
**Downtown Development Authority Component Unit**  
**June 30, 2006**

	<u>Special Revenue</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 2,194	\$ -	\$ 2,194
Investments	241,838	-	241,838
Prepaid items	796	-	796
Restricted cash and cash equivalents	62,348	-	62,348
<b>Total assets</b>	<u>\$ 307,176</u>	<u>-</u>	<u>307,176</u>
<b>Liabilities</b>			
Accounts payable	\$ 3,830	-	3,830
Accrued liabilities	794	-	794
Accrued interest payable	-	6,301	6,301
Long-term liabilities:			
Due within one year	-	110,000	110,000
Due in more than one year	-	665,000	665,000
<b>Total liabilities</b>	<u>4,624</u>	<u>781,301</u>	<u>785,925</u>
<b>Fund balance</b>			
Reserved for prepaid items	796	(796)	-
Unreserved, undesignated	301,756	(301,756)	-
<b>Total fund balance</b>	<u>302,552</u>	<u>(302,552)</u>	<u>-</u>
<b>Total liabilities and fund balance</b>	<u>\$ 307,176</u>		
<b>Net assets</b>			
Restricted for debt service		62,348	62,348
Unrestricted (deficit)		(541,097)	(541,097)
<b>Total net assets (deficit)</b>		<u>\$ (478,749)</u>	<u>\$ (478,749)</u>

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Activities and**  
**Governmental Fund Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Downtown Development Authority Component Unit**  
**For the Year Ended June 30, 2006**

	<u>Special Revenue</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Revenues</b>			
Property taxes	\$ 278,012	\$ -	\$ 278,012
Investment earnings	15,395	-	15,395
Other	<u>102,946</u>	<u>-</u>	<u>102,946</u>
Total revenues	<u>396,353</u>	<u>-</u>	<u>396,353</u>
<b>Expenditures/expenses</b>			
Community development	229,075	-	229,075
Debt service:			
Principal	95,000	(95,000)	-
Interest and fiscal charges	<u>42,918</u>	<u>(852)</u>	<u>42,066</u>
Total expenditures/expenses	<u>366,993</u>	<u>(95,852)</u>	<u>271,141</u>
Revenues over (under) expenditures	29,360	(29,360)	
Change in net assets		125,212	125,212
<b>Fund balances/net assets (deficit)</b>			
Beginning of year	<u>273,192</u>	<u>(877,153)</u>	<u>(603,961)</u>
<b>End of year</b>	<u><u>\$ 302,552</u></u>	<u><u>\$ (781,301)</u></u>	<u><u>\$ (478,749)</u></u>

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balance - Budget and Actual**  
**Downtown Development Authority Component Unit**  
**Special Revenue Fund**  
**For the Year Ended June 30, 2006**

	<b>Budget (Original and Final)</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>Revenues</b>			
Property taxes	\$ 277,050	\$ 278,012	\$ 962
Investment earnings	13,500	15,395	1,895
Other	107,041	102,946	(4,095)
	<u>397,591</u>	<u>396,353</u>	<u>(1,238)</u>
<b>Total revenues</b>			
	<u>397,591</u>	<u>396,353</u>	<u>(1,238)</u>
<b>Expenditures</b>			
Community development	250,176	229,075	(21,101)
Debt service:			
Principal	95,000	95,000	-
Interest and fiscal charges	42,919	42,918	(1)
	<u>388,095</u>	<u>366,993</u>	<u>(21,102)</u>
<b>Total expenditures</b>			
	<u>388,095</u>	<u>366,993</u>	<u>(21,102)</u>
<b>Net change in fund balance</b>	9,496	29,360	19,864
<b>Fund balance, beginning of year</b>	273,192	273,192	-
	<u>273,192</u>	<u>273,192</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 282,688</u>	<u>\$ 302,552</u>	<u>\$ 19,864</u>

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Net Assets and**  
**Governmental Fund Balance Sheet**  
**Local Development Finance Authority Component Unit**  
**June 30, 2006**

	<u>Special Revenue</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 127,218	\$ -	\$ 127,218
Investments	1,110,609	-	1,110,609
Prepays	10,195	-	10,195
Unamortized bond issuance costs	-	50,944	50,944
Restricted cash and cash equivalents	42,616	-	42,616
	<hr/>	<hr/>	<hr/>
<b>Total assets</b>	<u>\$ 1,290,638</u>	<u>50,944</u>	<u>1,341,582</u>
<b>Liabilities</b>			
Accounts payable	\$ 74,290	-	74,290
Accrued interest payable	-	13,417	13,417
Long-term liabilities:			
Due within one year	-	25,000	25,000
Due in more than one year	-	1,295,000	1,295,000
	<hr/>	<hr/>	<hr/>
<b>Total liabilities</b>	<u>74,290</u>	<u>1,333,417</u>	<u>1,407,707</u>
<b>Fund balance</b>			
Reserved for prepaid items	10,195	(10,195)	-
Unreserved, undesignated	1,206,153	(1,206,153)	-
	<hr/>	<hr/>	<hr/>
<b>Total fund balance</b>	<u>1,216,348</u>	<u>(1,216,348)</u>	<u>-</u>
<b>Total liabilities and fund balance</b>	<u>\$ 1,290,638</u>		
<b>Net assets</b>			
Restricted for debt service		42,616	42,616
Unrestricted		(108,741)	(108,741)
		<hr/>	<hr/>
<b>Total net assets (deficit)</b>		<u>\$ (66,125)</u>	<u>\$ (66,125)</u>

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Activities and**  
**Governmental Fund Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Local Development Finance Authority Component Unit**  
**For the Year Ended June 30, 2006**

	<u>Special Revenue</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Revenues</b>			
Property taxes	\$ 452,866	\$ -	\$ 452,866
Investment earnings	61,513	-	61,513
Other	570	-	570
	<u>514,949</u>	<u>-</u>	<u>514,949</u>
<b>Expenditures/expenses</b>			
Community development	1,540,903	-	1,540,903
Debt service:			
Principal	40,000	(40,000)	-
Interest and fiscal charges	34,416	16,099	50,515
Bond issuance costs	53,626	(53,626)	-
	<u>1,668,945</u>	<u>(77,527)</u>	<u>1,591,418</u>
Total expenditures/expenses			
	<u>1,668,945</u>	<u>(77,527)</u>	<u>1,591,418</u>
Revenues under expenditures	(1,153,996)	77,527	(1,076,469)
<b>Other financing sources</b>			
Long-term debt issued	1,360,000	(1,360,000)	-
	<u>1,360,000</u>	<u>(1,360,000)</u>	<u>-</u>
Net change in fund balance/net assets	206,004	(1,282,473)	(1,076,469)
<b>Fund balances/net assets</b>			
Beginning of year	1,010,344	-	1,010,344
	<u>1,010,344</u>	<u>-</u>	<u>1,010,344</u>
<b>End of year</b>	<u>\$ 1,216,348</u>	<u>\$ (1,282,473)</u>	<u>\$ (66,125)</u>

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balance - Budget and Actual**  
**Local Development Finance Authority Component Unit**  
**Special Revenue Fund**  
**For the Year Ended June 30, 2006**

	<b>Budget (Original and Final)</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>Revenues</b>			
Property taxes	\$ 437,999	\$ 452,866	\$ 14,867
Investment earnings	55,000	61,513	6,513
Other	-	570	570
	<u>492,999</u>	<u>514,949</u>	<u>21,950</u>
<b>Expenditures</b>			
Community development	1,598,758	1,540,903	(57,855)
Debt service:			
Principal	40,000	40,000	-
Interest and fiscal charges	34,418	34,416	(2)
Bond issuance costs	-	53,626	53,626
	<u>1,673,176</u>	<u>1,668,945</u>	<u>(4,231)</u>
Revenues under expenditures	(1,180,177)	(1,153,996)	26,181
<b>Other financing sources</b>			
Long-term debt issued	<u>1,329,712</u>	<u>1,360,000</u>	<u>30,288</u>
Net change in fund balance	149,535	206,004	56,469
Fund balance, beginning of year	<u>1,010,344</u>	<u>1,010,344</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 1,159,879</u></u>	<u><u>\$ 1,216,348</u></u>	<u><u>\$ 56,469</u></u>

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Net Assets and**  
**Governmental Fund Balance Sheet**  
**Economic Development Corporation Component Unit**  
**June 30, 2006**

	<u>Special Revenue</u>	<u>Adjustments</u>	<u>Statement of Net Assets</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 8,853	\$ -	\$ 8,853
<b>Liabilities</b>			
Accounts payable	\$ -	-	-
<b>Fund balance</b>			
Unreserved, undesignated	8,853	(8,853)	-
<b>Total liabilities and fund balance</b>	<u>\$ 8,853</u>		
<b>Net assets</b>			
Unrestricted		<u>\$ 8,853</u>	<u>\$ 8,853</u>

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Activities and**  
**Governmental Fund Revenues, Expenditures**  
**and Changes in Fund Balances**  
**Economic Development Corporation Component Unit**  
**For the Year Ended June 30, 2006**

	<u>Special Revenue</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
<b>Revenues</b>			
Investment earnings	\$ 144	\$ -	\$ 144
<b>Expenditures/expenses</b>			
Community development	<u>131</u>	<u>-</u>	<u>131</u>
Revenues over expenditures	13	(13)	
Change in net assets		13	13
<b>Fund balances/net assets</b>			
Beginning of year	<u>8,840</u>	<u>-</u>	<u>8,840</u>
<b>End of year</b>	<u><u>\$ 8,853</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 8,853</u></u>

**CITY OF MARSHALL, MICHIGAN**  
**Statement of Revenues, Expenditures**  
**and Changes in Fund Balance - Budget and Actual**  
**Economic Development Corporation Component Unit**  
**Special Revenue Fund**  
**For the Year Ended June 30, 2006**

	<b>Budget (Original and Final)</b>	<b>Actual</b>	<b>Actual Over (Under) Final Budget</b>
<b>Revenues</b>			
Investment earnings	\$ -	\$ 144	\$ 144
<b>Expenditures</b>			
Community development	<u>-</u>	<u>131</u>	<u>131</u>
Net change in fund balance	-	13	13
Fund balance, beginning of year	<u>8,840</u>	<u>8,840</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u><u>\$ 8,840</u></u>	<u><u>\$ 8,853</u></u>	<u><u>\$ 13</u></u>

**CITY OF MARSHALL,  
MICHIGAN**

**SINGLE AUDIT**

**For the Year Ended June 30, 2006**



**REHMANN ROBSON**

*Certified Public Accountants*

**CITY OF MARSHALL, MICHIGAN  
SINGLE AUDIT**

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**YEAR ENDED JUNE 30, 2006**

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**REHMANN ROBSON**

*Certified Public Accountants*

*A member of* **THE REHMANN GROUP**



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE  
AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

November 3, 2006

Honorable Mayor and Members  
of the City Council  
City of Marshall, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the **CITY OF MARSHALL, MICHIGAN** as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the **City of Marshall, Michigan's** internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the *City of Marshall, Michigan's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.



**REHMANN ROBSON**

*Certified Public Accountants*

A member of **THE REHMANN GROUP**

 an independent member of  
**BAKER TILLY**  
INTERNATIONAL

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH  
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE  
WITH OMB CIRCULAR A-133**

November 3, 2006

Honorable Mayor and Members  
of the City Council  
City of Marshall, Michigan

**Compliance**

We have audited the compliance of the ***City of Marshall, Michigan*** with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The ***City of Marshall, Michigan's*** major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the ***City of Marshall, Michigan's*** management. Our responsibility is to express an opinion on the ***City of Marshall, Michigan's*** compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on major federal programs occurred. An audit includes examining, on a test basis, evidence about the ***City of Marshall, Michigan's*** compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the ***City of Marshall, Michigan's*** compliance with those requirements.

In our opinion, the *City of Marshall, Michigan* complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

### **Internal Control Over Compliance**

The management of the *City of Marshall, Michigan* is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the *City of Marshall, Michigan's* internal control over compliance with requirements that could have a direct and material effect on major federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be a material weakness. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to major federal programs being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

### **Schedule of Expenditures of Federal Awards**

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the *City of Marshall, Michigan* as of and for the year ended June 30, 2006, and have issued our report thereon dated November 3, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned in the lower right area of the page.

**City of Marshall**  
**Schedule of Expenditures of Federal Awards**  
**For the Year Ended June 30, 2006**

Federal Grantor/ Pass-Through Grantor/ Program Title	CFDA Number	Pass-Through Grantor's Number	Approved Award/ Grant Amount	Accrued Revenue, Beginning of Year	Current Year Receipts	Current Year Expenditures	Accrued (Deferred) Revenue, End of Year
<b>U.S. Department of Housing and Urban Development</b>							
Direct program:							
Supportive Housing Program - Section 8 Housing Assistance	14.195		\$ 311,944	\$ -	\$ 311,944	\$ 311,944	\$ -
<b>Total Department of State</b>			311,944	-	311,944	311,944	-
<b>U.S. Department of Transportation</b>							
Pass-through Michigan Department of Transportation:							
Highway Planning and Construction - National Scenic Byways Grant	20.205	SB-MI03-(003)	334,000	-	106,460	106,460	-
Formula Grants For Other Than Urbanized Areas							
DART-Section 5311 Operating	20.509	MI-18-X037	45,055	-	13,409	13,409	-
DART-Section 5311 Operating	20.509	MI-18-X039	63,237	-	39,514	40,710	1,196
			108,292	-	52,923	54,119	1,196
<b>Total Department of Transportation</b>			442,292	-	159,383	160,579	1,196
<b>U.S. Department of Homeland Security</b>							
Direct program:							
Assistance to Firefighters Grant	97.044	EMW-2004-FG-06125	750,000	-	750,000	750,000	-
<b>Total Department of Homeland Security</b>			750,000	-	750,000	750,000	-
<b>Total Expenditures of Federal Awards</b>			<b>\$ 1,504,236</b>	<b>\$ -</b>	<b>\$ 1,221,327</b>	<b>\$ 1,222,523</b>	<b>\$ 1,196</b>

# CITY OF MARSHALL, MICHIGAN

## Notes To Schedule Of Expenditures Of Federal Awards

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### 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal awards programs of the City of Marshall, Michigan (the "City"). Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the schedule.

The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

The City of Marshall reporting entity is defined in Note I of the City's basic financial statements.

### 2. BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note I of the City's basic financial statements.

\* \* \* \* \*

# CITY OF MARSHALL, MICHIGAN

## Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2006

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### SECTION I - SUMMARY OF AUDITORS' RESULTS

#### Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? \_\_\_\_\_ yes X no

Reportable condition(s) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes X none reported

Noncompliance material to financial statements  
noted? \_\_\_\_\_ yes X no

#### Federal Awards

Internal Control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes X no

Reportable condition(s) identified  
not considered to be material weaknesses? \_\_\_\_\_ yes X none reported

Type of auditors' report issued on compliance  
for major programs: Unqualified

Any audit findings disclosed that are required  
to be reported in accordance with  
Circular A-133, Section 510(a)? \_\_\_\_\_ yes X no

# **CITY OF MARSHALL, MICHIGAN**

## **Schedule of Findings and Questioned Costs (Concluded)**

**For the Year Ended June 30, 2006**

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### **SECTION I - SUMMARY OF AUDITORS' RESULTS (Concluded)**

Identification of major programs:

<b><u>CFDA Number(s)</u></b>	<b><u>Name of Federal Program or Cluster</u></b>
14.195 97.044	Section 8 Housing Assistance Assistance to Firefighters

Dollar threshold used to distinguish  
between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes   X   no

### **SECTION II – FINANCIAL STATEMENT FINDINGS**

None.

### **SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None.

### **SECTION IV – PRIOR YEAR FINDINGS**

None

\* \* \* \* \*



# REHMANN ROBSON

*Certified Public Accountants*

A member of THE REHMANN GROUP



November 3, 2006

To the City Council of the  
City of Marshall  
Marshall, Michigan

We have audited the financial statements of *City of Marshall* for the year ended June 30, 2006, and have issued our report thereon dated November 3, 2006. Professional standards require that we provide you with the following information related to our audit.

**Our Responsibility Under Auditing Standards Generally Accepted in the United States of America and OMB Circular A-133**

As stated in our engagement letter dated July 20, 2006, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered City of Marshall's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether City of Marshall's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also, in accordance with OMB Circular A-133, we examined, on a test basis, evidence about City of Marshall's compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* applicable to each of its major federal programs for the purpose of expressing an opinion on City of Marshall's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on City of Marshall's compliance with those requirements.

**Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Marshall are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by City of Marshall during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

**Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the original cost and accumulated depreciation of its infrastructure capital assets is based on current replacement costs, and an assumed rate of inflation from the dates of original acquisition/construction. We evaluated the key factors assumptions used to develop the original cost and accumulated depreciation of the City's infrastructure capital assets in determining that they are reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the useful lives of depreciable fixed assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

**Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on City of Marshall's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by City of Marshall, either individually or in the aggregate, indicate matters that could have a significant effect on City of Marshall's financial reporting process.

In addition, the attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultations with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as City of Marshall’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is intended for the use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", written in a cursive style.

**City of Marshall**  
**Comments and Recommendations**  
**For the Year Ended June 30, 2006**

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During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated November 3, 2006 on the financial statements of City of Marshall.

We will review the status of these comments during our next audit engagement. We have already discussed these matters with City management and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist the City in implementing the recommendations.

**Internal Controls – Segregation of Duties**

Last year we made a broad comment regarding separation or segregation of duties. That comment is still applicable, but is supplemented with the following specific matters that existed as of November 3, 2006:

- Particular employees may handle cash receipts or disbursement and also prepare bank reconciliations or have direct access to the general ledger.
- Particular employees may initiate bank transfers and also prepare bank reconciliations or have direct access to the general ledger.
- Access to each petty cash box is not limited to a single custodian.
- Completed bank reconciliations are not required to be reviewed (and appropriately documented) by an individual other than the preparer.
- Credit memos or other account adjustments are not reviewed by a responsible official other than the individual responsible for preparing bills.
- New vendors are not approved by someone other than the individual responsible for processing accounts payable.
- Before running payroll checks, a payroll register is not reviewed and approved by an authorized individual not responsible for preparing the checks.
- Withholding accounts are not periodically reviewed and reconciled to ensure that all required payments are made on a timely basis.
- Capital asset records are not reviewed annually by various departmental representatives for additions and disposals.
- General journal entries are not reviewed and approved by employee other than the preparer.

While there are, of course, no easy answers to the challenge of balancing the costs and benefits of internal controls and the segregation of duties, we would nevertheless encourage management to actively seek ways to further strengthen its internal control structure by requiring as much independent review, reconciliation, and approval of accounting functions by qualified members of management as possible.

**Bank Reconciliations**

The Michigan Department of Treasury has recently issued guidance re-emphasizing its position as stated in the Uniform Accounting Procedures Manual that local units of government are required to prepare bank reconciliations for all cash accounts monthly. Auditors are now required to report to the Local Audit and Finance Division whether all bank reconciliations examined in connection with our audit were performed timely (i.e., within six weeks of each month end).

# **City of Marshall**

## **Comments and Recommendations**

**For the Year Ended June 30, 2006**

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Our testing of the reconciliations for 2006 identified small immaterial discrepancies, one of which could not be adequately traced to its source, despite a significant investment of time on the part of management. Also, it was noted that the variance increases and decreases from month to month. Ultimately, it was agreed that this is a result of issues relating to automatic posting to the general ledger cash account, though no further details could be readily determined.

We recommend that the City carefully evaluate its internal controls over cash management, especially in the reconciliation of cash accounts, to ensure that all accounts are thoroughly reviewed in a timely manner throughout the year, as well as at year end, for all cash accounts.

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